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ARIZONA CORPORATION COMMISSION  
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IN THE MATTER OF THE APPLICATION )  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS SUN CITY WEST WATER AND )  
WASTEWATER DISTRICTS. )

DOCKET NO. WS-01303A-02-0867 ✓

Arizona Corporation Commission  
**DOCKETED**

SEP 05 2003

DOCKETED BY

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IN THE MATTER OF THE APPLICATION )  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS SUN CITY WATER AND )  
WASTEWATER DISTRICTS. )

DOCKET NO. WS-01303A-02-0868 ✓

IN THE MATTER OF THE APPLICATION )  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS MOHAVE WATER DISTRICT AND )  
ITS HAVASU WATER DISTRICTS. )

DOCKET NO. WS-01303A-02-0869 ✓

LAW OFFICES

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1  
2 IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0870 ✓  
3 OF ARIZONA-AMERICAN WATER )  
4 COMPANY, INC., AN ARIZONA )  
5 CORPORATION, FOR A )  
6 DETERMINATION OF THE CURRENT )  
7 FAIR VALUE OF ITS UTILITY PLANT )  
8 AND PROPERTY AND FOR INCREASES )  
9 IN ITS RATES AND CHARGES BASED )  
10 THEREON FOR UTILITY SERVICE BY )  
11 ITS ANTHEM WATER DISTRICT, ITS )  
12 AGUA FRIA WATER DISTRICT, AND )  
13 ITS ANTHEM/AGUA FRIA )  
14 WASTEWATER DISTRICT. )


10 IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0908 ✓  
11 OF ARIZONA-AMERICAN WATER )  
12 COMPANY, INC., AN ARIZONA )  
13 CORPORATION, FOR A )  
14 DETERMINATION OF THE CURRENT )  
15 FAIR VALUE OF ITS UTILITY PLANT )  
16 AND PROPERTY AND FOR INCREASES )  
17 IN ITS RATES AND CHARGES BASED )  
18 THEREON FOR UTILITY SERVICE BY )  
19 ITS TUBAC WATER DISTRICT. )

16  
17 **TOWN OF YOUNGTOWN'S NOTICE OF FILING**  
18 **PREFILED DIRECT TESTIMONY**

18 Town of Youngtown, by and through its attorneys, hereby files the Prefiled  
19 Direct Testimony of Michael E. Burton and Andrew J. Burnham of the utility finance and  
20 economics consulting firm of Burton & Associates, Inc.  
21

22 RESPECTFULLY SUBMITTED, this 5<sup>th</sup> day of September, 2003.

23 MARTINEZ & CURTIS, P.C.

24 

25 William P. Sullivan

26 Paul R. Michaud

Attorneys for Town of Youngtown



1 **Original and twenty-one (21) copies of**  
2 **the foregoing filed this 5<sup>th</sup> day of September, 2003 with:**

3 Docket Control Division  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 **Copies of the foregoing hand-delivered and/or mailed**  
8 **this 5<sup>th</sup> day of September, 2003 to:**

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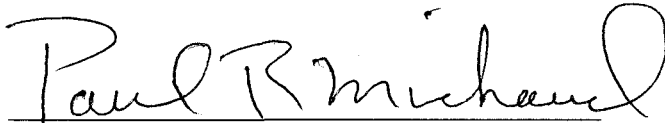
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**PREFILED DIRECT TESTIMONY OF MICHAEL E. BURTON**  
**ON BEHALF OF TOWN OF YOUNGTOWN**

**Docket No. WS-01303A-02-0867**  
**Docket No. WS-01303A-02-0868**  
**Docket No. WS-01303A-02-0869**  
**Docket No. WS-01303A-02-0870**  
**Docket No. WS-01303A-02-0908**

**SEPTEMBER 5, 2003**

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1       **I.       INTRODUCTION AND QUALIFICATIONS**

2  
3       **Q.       PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4       A.       My name is Michael E. Burton and my business address is 2902 Isabella Blvd.,  
5               Suite 20, Jacksonville Beach, Florida.

6  
7       **Q.       BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8       A.       I am the President and Owner of Burton & Associates, Inc., a utility finance and  
9               economics consulting firm.

10  
11  
12       **Q.       PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
13       **BUSINESS EXPERIENCE.**

14       A.       I graduated from the University of Florida with a Bachelor of Science Degree in  
15               Industrial Engineering. I also completed MBA coursework in Finance at Georgia  
16               State University. I have over 30 years experience in water resources economics  
17               management consulting, ten years of which have been with Arthur Young &  
18               Company (now Cap Gemini Ernst & Young), one of the largest accounting and  
19               management-consulting firms in the nation. I was a principal of that firm and  
20               served as Director of the Florida Utility Finance Consulting Practice. My lengthy  
21               experience in the financial management of water, wastewater, reclaimed water  
22               and stormwater utilities has included rate case assistance to private utilities, rate  
23               regulation assistance to jurisdictional counties, utility acquisition analyses and  
24               consensus building, user charge/rate studies, impact fee studies, financial advisory  
25  
26

1 services for the issuance of revenue bonds, bond issue feasibility studies/forecasts,  
2 expert witness testimony, and strategic planning for the provision of utility  
3 services for governmental jurisdictions and private developers. A copy of my  
4 resume detailing my education and work experience is attached to this testimony  
5 as MEB Exhibit 1.  
6

7  
8 **Q. PLEASE DESCRIBE BURTON & ASSOCIATES, INC.**

9 A. I founded Burton & Associates in April of 1988. Since that time, the firm has  
10 specialized in utility economics. Burton & Associates has developed proprietary  
11 software and an interactive process specifically to accomplish the integration of  
12 the financial planning and ratemaking process with the capital planning process.  
13 The firm provides services in multiple areas, including retail and wholesale cost  
14 of service and rate studies, utility economics, financial program development,  
15 system and property valuation and analyses, operations and performance reviews,  
16 strategic planning, financial feasibility analyses, privatization and managed  
17 competition analyses, and development of capital finance plans integrated with  
18 the client's overall financial management program. A copy of the firm resume is  
19 attached to this testimony as Exhibit MEB 2.  
20  
21  
22  
23  
24  
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26

1       **Q.     WHAT ARE YOUR RESPONSIBILITIES WITH BURTON &**  
2       **ASSOCIATES, INC.?**

3       A.     As President and Owner of Burton & Associates, I provide expert professional  
4             utility economics services to the firm's clients, manage each client project as  
5             Project Director, and oversee my staff's provision of professional services to our  
6             clients on behalf of the firm. I also define and upgrade all technical tools used by  
7             firm staff to deliver services to our clients. I oversee the education of firm staff  
8             regarding industry and regulatory changes and have written a number of papers  
9             for and have made multiple presentations to industry participants and professional  
10            organizations that have a stake or interest in water resources. I upgrade and  
11            change our services delivery process in response to feedback from our clients and  
12            from industry professionals on a regular basis. I am personally involved in each  
13            and every consulting project for the firm.

14  
15  
16  
17       **Q.     WHAT IS YOUR EXPERIENCE IN UTILITY RATE REGULATION?**

18       A.     As explained in detail in my resume, I served for over ten years as the regulatory  
19             consultant to the St. John's County Water and Sewer Authority ("SJCWSA"). In  
20             this capacity, I reviewed all rate case applications and proceedings brought before  
21             the authority and developed recommendations with regard to SJCWSA actions  
22             relating to those proceedings. In addition, I have assisted in the preparation of  
23             rate case applications and related proceedings for private utilities regulated by the  
24  
25  
26

1 Florida Public Service Commission ("FPSC"). I have served as an expert witness  
2 in numerous proceedings before both the SJCWSA and the FPSC.  
3

4  
5 **Q. ARE YOU A MEMBER OF ANY INDUSTRY GROUPS OR**  
6 **ORGANIZATIONS?**

7 A. Yes. I am currently a member of the American Water Works Association, where  
8 I serve as a member of its Rate and Charges Subcommittee. As a member of that  
9 subcommittee, I am currently serving on a task force as a co-author of a Small  
10 System Rates Manual.  
11

12  
13 **Q. WHAT MANUALS, PAPERS OR ARTICLES HAVE YOU WRITTEN**  
14 **AND WHAT PRESENTATIONS HAVE YOU MADE AS A UTILITY**  
15 **ECONOMICS PROFESSIONAL CONSULTANT?**

16 A. I have written, co-authored or presented the following: 1) AWWA MANUAL-  
17 RATE MAKING FOR SMALL UTILITIES-Co-Authored for AWWA. Due for  
18 publication in 2004; 2) INTEGRATION OF CAPITAL AND FINANCIAL PLANNING-  
19 Written and presented at the Florida Water Resources Conference-2003 -Tampa,  
20 Florida; 3) FINANCIAL IMPLICATION OF ALTERNATIVE WATER SUPPLY - Written  
21 and presented at the Florida Water Resources Conference-2003 Tampa, Florida;  
22 4) THE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE &  
23 REVENUE -Presented at the Florida Water Resources Conference-2003 Tampa,  
24 Florida; 5) IMPLEMENTATION OF RECLAIMED WATER RATES & METERING - Co-  
25  
26



1            Authored With Al Castro, P.E. – Orange County Utilities, written and presented at  
2            the Florida Water Resources Conference-2002 Orlando, Florida, and published in  
3            the FWR Journal – 2002; 6) WATER RATE MAKING FOR GOVERNMENTAL  
4            UTILITIES - Written for presentation to the St. Johns River Water Management  
5            District under contract with the Orange County Public Utilities (utilities serving  
6            the greater Orlando area) – 2001; 7) EVALUATING & SETTING RATES-Written and  
7            presented at the Water Environment Federation, Dallas, Texas 1998; 8)  
8            RECLAIMED WATER RATE MAKING - Written and presented at the AWWA 1998  
9            Water Reuse Symposium in Orlando, Florida (February 1998); 8) AN  
10           AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF  
11           REUSE SYSTEMS - Written and presented at the AWWA 1994 Water Reuse  
12           Symposium in Dallas, Texas (March 1994).

13  
14  
15  
16        **Q.     ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS RATE CASE?**

17        A.     I am testifying on behalf of the Town of Youngtown (“Youngtown” or “Town”).  
18            Youngtown and its residents are customers of Arizona-American Water Company  
19            (“Arizona American” or “Company”) and thus have a direct and substantial  
20            interest in the outcome of the Company’s requested rate increase. As such, my  
21            associate Andrew J. Burnham and I expended a considerable amount of time  
22            analyzing the Arizona-American’s Rate Increase Application to determine  
23            whether the Company’s requested rate increase was in the public interest and fair  
24            and reasonable to Youngtown and its residents.  
25  
26

1       **II.     SUMMARY OF RECOMMENDATIONS**

2  
3       **Q.     WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
4       **RATE CASE?**

5       A.     The purpose of my Direct Testimony is to make the following four  
6             recommendations to the Administrative Law Judge ("ALJ"), based on my  
7             analysis of Arizona-American's Rate Increase Application, in deciding the  
8             outcome of this proceeding:  
9

10  
11            First, the Original Cost Rate Base ("OCRB") should be utilized as Fair Value  
12            Rate Base ("FVRB") in this rate case.  
13

14  
15            Second, that as a matter of public interest, the Commission should defer the  
16            accounting treatment of any acquisition adjustment from Arizona-American's  
17            purchase of Citizens' assets until such point in time that the Company formally  
18            requests recovery of an actual acquisition adjustment amount and there is  
19            sufficient experience so the Commission can properly evaluate whether the  
20            customers are receiving any demonstrable benefits as a result of the acquisition.  
21

22  
23            Third, that as matter of fairness to all of Arizona-American's customers in the Sun  
24            City Water District, the Company should revise its irrigation water rate tariff to  
25  
26

1           also include service to Youngtown, including Maricopa Lake maintained by  
2           Youngtown and open to the public.

3  
4           Lastly, the Commission should require Arizona-American to work with the  
5           Youngtown Mayor and City Counsel as well as the Fire Marshal for the Sun City  
6           Fire Department to develop a long-range plan to remedy any and all existing  
7           water service adequacy problems to Youngtown's fire hydrants located within the  
8           Company's Sun City Water District.  
9

10  
11           **III.   DETERMINATION OF FVRB**  
12

13           **Q.   HOW DOES ARIZONA-AMERICAN PROPOSE TO CALCULATE FVRB**  
14           **FOR ITS VARIOUS WATER AND WASTEWATER DISTRICTS?**

15           A.   Arizona-American proposes to use its calculation of Reconstruction Cost New  
16           less Depreciation ("RCND") rate base as FVRB for each of the Company's  
17           districts. The RCND method is a calculated representation, in current dollars, of  
18           what it might cost to reconstruct the existing plant that multiplies the original cost  
19           of the facilities by a selected index (by month and year of acquisition). Arizona-  
20           American made adjustments for retirements and additions, and trended  
21           accumulated depreciation balances based on the ratio of total RCN plant value to  
22           total original plant costs and subtracted those balances from the RCN. This  
23           calculation was then used by Arizona-American as the FVRB.  
24  
25  
26

1       **Q.     DO YOU BELIEVE THAT ARIZONA-AMERICAN'S APPROACH TO**  
2           **CALCULATE FVRB FOR ITS VARIOUS WATER AND WASTEWATER**  
3           **DISTRICTS IS APPROPRIATE?**

4       A.    No.

5  
6  
7       **Q.     WHAT DO YOU BELIEVE IS THE APPROPRIATE APPROACH TO**  
8           **CALCULATE THE CURRENT VALUE OF WATER AND**  
9           **WASTEWATER ASSETS?**

10      A.    Clearly the best approach to determine the fair value of assets upon which a utility  
11            may earn a return is one that utilizes a combination of multiple valuation methods  
12            that would likely include RCND and an income approach, based upon OCRB and  
13            any other relevant factors that are relevant to the particular utility.

14  
15  
16      **Q.     WHY THEN ARE YOU ADVOCATING THE USE OF OCRB ALONE AS**  
17           **FVRB IN THIS INSTANCE?**

18      A.    Because Arizona Corporation Commission ("Commission") Decision No. 63584,  
19            dated April 24, 2001, approving Arizona-American's purchase of Citizens' water  
20            and wastewater assets, essentially mandates that the use of RCND in a fair value  
21            determination must be deferred until such time as Arizona-American requests  
22            recovery of an acquisition amount. A copy of Decision No. 63584 is attached to  
23            this testimony as MEB Exhibit 3. Furthermore, as I read the Decision, Arizona-  
24            American's purchase of Citizens' water and wastewater assets included the  
25  
26

1 express condition that any request for an acquisition must include a showing of a  
2 clear and quantifiable public benefit that would not have existed had the sale not  
3 occurred.  
4

5  
6 **Q. YOU MENTIONED THE SHOWING OF "PUBLIC BENEFIT" IN YOUR**  
7 **PRIOR ANSWER. DO YOU BELIEVE THAT PUBLIC BENEFITS**  
8 **FACTOR INTO THE FVRB DETERMINATION?**

9 A. Yes. The OCRB reflects the amount actually paid for property when it was  
10 initially devoted to a public purpose, less the amount consumed through use (i.e.,  
11 depreciation). Use of any FVRB greater than the OCRB causes the ratepayers to  
12 provide a return on dollars that were not actually expended on property devoted to  
13 a public purpose. On the other hand, RCND is an estimate of the depreciated  
14 value of the property adjusted for current prices. If a FVRB based on RCND  
15 causes rates to be higher than what they would be under a straight OCRB  
16 approach as in this case, then the utility must demonstrate a public benefit  
17 justifying the use of RCND in the FVRB determination. For Arizona-American's  
18 assets acquired from Citizens to be worth more than OCRB, the Company must  
19 prove that awarding additional "worth" resulting from using RCND in the FVRB  
20 determination provides incremental public benefit above that provided if OCRB  
21 were used as FVRB. If no additional public benefit can be proven from the  
22 awarding of higher rates resulting from a FVRB calculation relying upon RCND,  
23 there should not be a premium of value above OCRB.  
24  
25  
26

1       **Q.     PLEASE EXPLAIN WHY THE RECOVERY OF AN ACQUISITION**  
2       **ADJUSTMENT AND THE USE OF RCND RATE BASE FOR**  
3       **CALCULATING FVRB MUST BE CONSIDERED SIMULTANEOUSLY**  
4       **IN THE CASE OF ARIZONA-AMERICAN.**

5  
6       A.    As I mentioned, RCND is one factor, that when considered in conjunction with  
7           other valuation methods and all other factors relevant to the utility, can assist a  
8           regulatory body, such as the Commission, in establishing a reasonable estimation  
9           of fair value of the plant.   A purchaser in determining what to pay for a utility  
10          should consider these same factors. On the other hand, an acquisition adjustment  
11          seeks to adjust the utility's books so that the plant's book value is closer to the  
12          amount paid by the willing buyer. Thus, two recovery of an acquisition  
13          adjustment and the use of RCND rate base for calculating FVRB are related and  
14          are intended to accomplish the same purpose – to reflect the value of the plant  
15          placed in service.

16  
17  
18       The Commission, however, has already set forth the criteria that must be met  
19       before Arizona-American can request recovery of an amount above the original  
20       costs of these assets. Because of Arizona-American's proposal to defer the  
21       determination of an acquisition adjustment amount, any determination of current  
22       fair value that is based on anything but original cost has in essence been held in  
23       abeyance. By deferring its request for an amount of an acquisition adjustment,  
24       Arizona-American has effectively deferred the Commission's determination of  
25  
26

1 the appropriateness of valuing Arizona-American's utility assets above original  
2 cost less depreciation. By allowing any use of RCND in determining FVRB now,  
3 the Commission would be allowing Arizona-American to side-step a condition  
4 from the previous Decision and Order (Decision No. 63584) and achieve a  
5 premium in value (indicative of an acquisition adjustment) without demonstrating  
6 public benefit. Therefore, with the decision still looming regarding the recovery  
7 and size of an acquisition adjustment, the Commission should require the use of  
8 OCRB as the FVRB.  
9

10  
11 **Q THEN WHY DO YOU BELIEVE THAT ARIZONA-AMERICAN HAS**  
12 **REQUESTED DEFERRAL OF AN ACQUISITION ADJUSTMENT IF IT**  
13 **IS CRITICAL TO THE DETERMINATION OF FAIR VALUE?**  
14

15 **A.** An acquisition adjustment is an adjustment to rate base to reflect the difference  
16 between OCRB and the fair value of the utility acquired. As I stated before, the  
17 Commission has conditioned the award of the amount of an acquisition  
18 adjustment, if any, by requiring that Arizona-American clearly demonstrate the  
19 public benefit of the acquisition. I believe that logically, Arizona-American must  
20 know that demonstrating a public benefit will be difficult; therefore, the strategy  
21 of asking for RCND as FVRB, prior to having to demonstrate public benefit,  
22 effectively bypasses the issue. Furthermore, if the Commission accepts Arizona-  
23 American's proposal to use RCND as FVRB in this proceeding, the Commission  
24 will have effectively approved an acquisition adjustment without Arizona-  
25  
26

American having to comply with the provision of the Commission's prior  
Decision and Order that public benefit must be demonstrated.

**IV. DEFERRAL OF ACCOUNTING TREATMENT FOR**  
**ACQUISITION ADJUSTMENT**

**Q. WHAT IS YOUR POSITION REGARDING ARIZONA-AMERICAN'S  
REQUEST TO RECEIVE REGULATORY APPROVAL FOR CERTAIN  
ACCOUNTING TREATMENT OF AN ACQUISITION ADJUSTMENT,  
BUT DEFER THE DETERMINATION OF AN ACTUAL AMOUNT OF  
THE ACQUISITION ADJUSTMENT?**

**A.** Arizona-American's request for accounting treatment prior to establishing the  
dollar amount which, the accounting would be applied, is simply illogical and  
inappropriate. The more prudent, and appropriate approach is to have the specific  
dollar amount and the accounting treatment for that dollar amount established  
simultaneously for the following reasons:

1. The appropriate accounting approach for an acquisition adjustment  
may well vary depending upon the amount of the adjustment;
2. The establishment of accounting treatment for something that may  
not exist could result in a wasted effort if an acquisition adjustment  
is not awarded; and
3. This proceeding likely has different participants than will the  
proceeding in which the dollar value of any acquisition adjustment



1 is to be established due to the fundamental topical differences and  
2 timing. That means that parties who would take issue with any and  
3 all aspects of an acquisition adjustment in a future proceeding will  
4 be bound by the results of this proceeding (in regards to accounting  
5 treatment of an acquisition adjustment), of which they might not  
6 have been a participant.  
7

8  
9 **V. IRRIGATION WATER TARIFF**

10  
11 **Q. DOES ARIZONA-AMERICAN CURRENTLY HAVE IN ITS RATE**  
12 **STRUCTURE AN IRRIGATION WATER TARIFF FOR THE**  
13 **COMPANY'S SUN CITY WATER DISTRICT?**

14 **A.** Yes. Arizona-American has in its existing rate structure an irrigation water tariff,  
15 which applies to recreation lakes located in the Company's Sun City Water  
16 District.  
17

18  
19 **Q. DOES ARIZONA-AMERICAN'S IRRIGATION WATER TARIFF ALSO**  
20 **APPLY TO THE RECREATION LAKES IN YOUNGTOWN?**

21 **A.** No. Arizona-American's irrigation water tariff is currently not available to the  
22 recreation lake in Youngtown; namely the Maricopa Lake. Because the irrigation  
23 water tariff is a lower rate than general service rates, Youngtown currently pays  
24 more for water service to its recreation lake than Arizona-American's other  
25 recreation lake customers in the Company's Sun City Water District.  
26

1       **Q.     DOES YOUNGTOWN DESIRE THAT ARIZONA-AMERICAN REVISE**  
2               **ITS IRRIGATION WATER TARIFF SO THAT IT IS AVAILABLE TO**  
3               **THE RECREATION LAKES IN YOUNGTOWN?**

4       A.    Yes. As a matter of fairness, Youngtown believes that it should be charged the  
5               same service rate for its recreation lakes as other customers in the Company's Sun  
6               City Water District. As shown in the attached letter from Arizona-American to  
7               the then presiding Mayor of Youngtown, the Company apparently agrees that this  
8               rate case is the appropriate regulatory forum for Youngtown to request a revision  
9               to the Company's current irrigation water rate tariff so that the tariff also includes  
10              any recreation lakes located in Youngtown. A copy of the letter from Arizona-  
11              American to the Town of Youngtown is attached to this testimony as MEB  
12              Exhibit 4.  
13  
14

15  
16       **VI.    ADEQUACY OF WATER SERVICE TO YOUNGTOWN FIRE**  
17               **HYDRANTS**  
18

19       **Q.     DOES YOUNGTOWN HAVE ANY CONCERNS OVER THE ADEQUACY**  
20               **OF WATER SERVICE TO THE TOWN'S FIRE HYDRANTS?**

21       A.    Yes. I am informed by the Youngtown Mayor and Council Members, as well as  
22               the Fire Marshal for the Sun City Fire Department, that they are concerned with  
23               the adequacy of water service to certain of the fire hydrants located within  
24               Youngtown. This concerned was recently memorialized in a letter from Steve D.  
25               Morrow, Fire Marshal, Sun City Fire Department to the Youngtown Mayor and  
26

1 Town Council. A copy of the letter is attached to this testimony as MEB Exhibit  
2 5.

3  
4 Youngtown, as well as the Sun City Fire Department, are concerned that several  
5 areas of Arizona-American's water system serving Youngtown may have sub-  
6 standard size main and branch lines to support the required size and type fire  
7 hydrant to achieve required fire flows for residential and commercial structures.  
8 They are also concerned that pocket areas of Youngtown may lack fire hydrants  
9 altogether. Lastly, they are concerned with flow pressure depending on location  
10 of fire hydrant within Youngtown and time of day the fire hydrant would need to  
11 be used by the fire department.  
12  
13  
14

15 **Q. DOES YOUNGTOWN PROPOSED A SOLUTION TO REMEDYING THE**  
16 **DEFICIENCIES IN ARIZONA-AMERICAN'S WATER SERVICE TO**  
17 **YOUNGTOWN'S FIRE HYDRANTS?**

18 A. Yes. Youngtown proposes that Arizona-American commence a "Fire Hydrant  
19 Water Service Improvement Plan", which would be a five-year plan, to remedy  
20 any identified deficiencies in the Company's water service to Youngtown's fire  
21 hydrants, including those deficiencies specifically identified above by the Sun  
22 City Fire Department in MEB Exhibit 5. This proposal includes the requirement  
23 that Arizona-American include the participation of Youngtown, as well as the Sun  
24  
25  
26

1 City Fire Department, in the Company's development of the five-year Fire  
2 Hydrant Water Service Improvement Plan.  
3

4 **Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

5  
6 **A. Yes.**  
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# MICHAEL E. BURTON



## SUMMARY

Mr. Burton has over **30 years experience** in water resources economics management consulting, ten years of which have been with Arthur Young & Company, one of the "Big Eight" national accounting and management consulting firms. Mr. Burton was a principal of the firm and served as Director of the Florida Governmental Services - Utility Finance Consulting Practice.

His experience in the financial management of water, wastewater, reclaimed water and stormwater utilities includes user charge/rate studies, impact fee studies, financial advisory services for the issuance of revenue bonds, bond issue feasibility studies/forecasts, strategic planning for the provision of utility services for governmental jurisdictions and private developers, rate case assistance to private utilities, rate regulation assistance to jurisdictional counties, utility acquisition analyses and consensus building.

## PROFESSIONAL EXPERIENCE

Mr. Burton's experience includes the following areas of practice:

### γ Water, Wastewater, Reclaimed Water, and Stormwater -

- Revenue sufficiency analysis,
- Cost allocation determination,
- CIP program development,
- Funding analyses,
- Financial management programs,
- Regulatory assistance,
- Rates programs,
- Rate structure design,
- Impact fees,
- Unaccounted for water audits
- Utility valuations,
- Acquisition planning and analyses,
- Strategic planning and economic impact quantification,
- Water resources planning including alternative source of supply, and
- Rate case assistance
- Expert Witness Testimony

γ Governmental Services - Impact fees, capital improvement programs, user fees, contracting with the private sector, general government financial analysis and management program development.

γ Solid Waste - Governmental, regulated private franchises, rates, tipping fees, operations audits.



# MICHAEL E. BURTON



- γ **Regulatory Agencies** - Counties, municipalities, Public Service Commissions, Department of Environmental Regulation, U. S. Environmental Protection Agency, water management districts, water and sewer authorities.

## γ **EXPERTISE**

Functional areas of expertise and direct consulting experience include:

γ **Fully Allocated Cost of Service, Water, Wastewater, Reclaimed Water and Stormwater Rate Studies**

- < Determination of operations & maintenance costs
  - \$ Direct costs
  - \$ Indirect costs identification of capital costs
  - \$ Capital improvement Programs
  - \$ Debt service requirements
  - \$ Renewal & replacement
- < Determination of rate base (regulated utilities)
  - \$ Fixed assets/plant investments
  - \$ Contributions in aid of construction (CIAC)
  - \$ Service availability fees
  - \$ Used and useful analysis
  - \$ Weighted cost of capital to include:
    - T *Debt/equity ratios*
    - T *Cost of money*
    - T *Return on equity*
- < Allocation of costs
  - \$ Fixed
  - \$ Variable
  - \$ Capacity
  - \$ Demand
  - \$ Special services
- < Commodity demand projections
- < Rate structure design
  - \$ ERC Determination
  - \$ Fixed or minimum charges
  - \$ Usage/commodity charges
  - \$ Specific service charges



# MICHAEL E. BURTON



## γ Impact Fee Development

### **EXPERTISE - CONTINUED**

Functional areas of expertise and direct consulting experience include:

## γ Fully Allocated Cost of Service, Water, Wastewater, Reclaimed Water and Stormwater Rate Studies - Continued

- < Utility impact fees
  - \$ Water & sewer
  - \$ Solid waste
- < Municipal services impact fees
  - \$ Parks and recreation
  - \$ Fire
  - \$ Police
  - \$ Transportation
  - \$ General government

## γ Capital Improvement Programs

- < Concurrency management plans
- < Regulatory compliance
- < Funding source analysis
- < Financial feasibility analysis
- < Developer regulations/agreements

## γ Special Fee Determination (consumptive use permits application fees, etc.)

## γ Regulatory Compliance

## γ Operations Audit/Analysis

- < Organization and staffing
- < Customer service
- < Resource management

## γ Revenue Bond Financing

- < Financial advisory services
  - \$ Underwriter evaluation/selection
  - \$ Structure of financing
- < Feasibility studies/forecasts

## γ Inventory and Valuation of Fixed Assets

## γ Utility Valuation for Sale/Acquisition

**Burton & Associates**



# MICHAEL E. BURTON



## EXPERTISE - CONTINUED

### γ Strategic Planning

- < Governmental jurisdictions
  - \$ Definition of service objectives
    - T *Service area(s)*
    - T *Service area jurisdiction policy*
    - T *Level of service*
  - \$ Regulatory policies and procedures
  - \$ Definition of framework for growth
    - T *Facilities and operations*
    - .. Main extension policies
      - .. Utility acquisition plans
      - .. Organization and staffing requirements
      - .. Regulatory resources (staff, consultants, etc.)
    - T *Funding*
      - .. Utility acquisition funding strategy
      - .. Cost impact/rate projections
      - .. Capital requirements
      - .. Contributions in aid of construction policy
      - .. Assessment policies
      - .. Impact fees
- < Private utilities and developers
  - \$ Utility planning relative to regulatory constraints and development plan alternatives
  - \$ Capital requirements, projected rates, plant investment strategy
    - T *Phasing relative to growth and impact on used and useful plant*
    - T *Analysis of debt/equity ratios to maximize return*



# MICHAEL E. BURTON



## PUBLICATIONS & PRESENTATIONS

Recent publications and presentations written, co-written and presented by Mr. Burton include:

**AAWWA MANUAL - RATE MAKING FOR SMALL UTILITIES@** - Co-Authoring for AWWA. Due for publication in 2004.

**AINTEGRATION OF CAPITAL AND FINANCIAL PLANNING@** - Written and presented at the Florida Water Resources Conference-2003 -Tampa, Florida

**AFINANCIAL IMPLICATION OF ALTERNATIVE WATER SUPPLY@** - Written and presented at the Florida Water Resources Conference-2003 Tampa, Florida

**ATHE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE & REVENUE"**  
Presented at the Florida Water Resources Conference-2003 Tampa, Florida

**AIMPLEMENTATION OF RECLAIMED WATER RATES & METERING@** - Co-Authored With Al Castro, P.E. – Orange County Utilities, written and presented at the Florida Water Resources Conference-2002 Orlando, Florida, and published in the FWR Journal - 2002

**AWATER RATE MAKING FOR GOVERNMENTAL UTILITIES@** - Written for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area) - 2001

**AEVALUATING & SETTING RATES@** - Written and presented at the Water Environemnt Federation, Dallas, Texas 1998

**ARECLAIMED WATER RATE MAKING@** - Written and presented at the AWWA 1998 Water Reuse Symposium in Orlando, Florida (February 1998)

**AAN AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF REUSE SYSTEMS@** - Written and presented at the AWWA 1994 Water Reuse Symposium in Dallas, Texas (March 1994)

**AWATER RATE MAKING FOR GOVERNMENTAL UTILITIES@** - Currently developing this paper for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area)



# MICHAEL E. BURTON



## BUSINESS EXPERIENCE

### President

*Burton & Associates  
Jacksonville Beach, FL*

### Director of Consulting

*Florida Systems Consulting Group, Inc.  
Jacksonville, FL*

### Principal

*Arthur Young & Company  
Director of Florida Governmental Services  
Jacksonville, FL*

### Associate Vice President

*Plantec Corporation  
Director of Financial & Planning Consulting Services Division  
Jacksonville, FL*

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## EDUCATION

MBA Coursework, Finance  
Georgia State University  
Atlanta, GA

BSIE  
University of Florida  
Gainesville, FL

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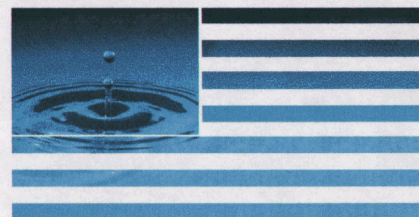
*Burton & Associates*



# Burton & Associates

As a specialty firm, **Burton & Associates** has successfully provided financial assistance to our governmental utility clients for more than a decade in the following areas of practice:

- ☐ **Utility economics**
- ☐ **Financial program development**
- ☐ **System & property valuation and analyses**
- ☐ **Retail and wholesale cost of service & rate studies**
- ☐ **Operations and performance reviews, strategic planning, financial feasibility analyses and reports, annexation analyses and reports**
- ☐ **Privatization and managed competition analyses and reports**
- ☐ **Administrative and negotiations assistance with ordinances, interlocal agreements, regulatory mandates and impact analyses**
- ☐ **Bond feasibility reports for inclusion in the office statements of revenue bonds**
- ☐ **The development of capital finance plans integrated with the utility's overall financial management program**
- ☐ **The development of an interactive automated process which allows us to quickly evaluate revenue sufficiency, alternative capital plans and alternative financing scenarios with regard to those plans in order to evaluate the implications regarding all aspects of the utility's financial management program**





- **Coordination with rating agencies in support of our bond feasibility reports for the issuance of revenue bonds.**
- **Evaluation of and assistance in negotiations with regard to contract services, utility acquisitions, developer agreements and utility main extension policies.**
- **Development of capital cost recovery fees.**

***A. Our Utility Economics Experience***

Michael Burton, President of Burton & Associates has over 30 years of direct experience providing revenue sufficiency analyses services. He has provided those services as a rate consultant, project manager, and project director for many local governments over the past 30 years. In the early 1990s, Mike developed a unique interactive process for his clients that has set him and Burton & Associates apart from others providing similar services. This powerful proprietary process, coupled with his lengthy and extensive experience as a Utility Economics Consultant has placed him as the most senior and knowledgeable resource available to you. Mike and his staff provide the most effective and efficient utility economics services (especially revenue sufficiency analyses services) available.

**FAMS-XL©**

Recently, Mike has developed a new version of the model used in this process. The new model is an EXCEL version of FAMS known as **FAMS-XL©**.





This powerful new version encompasses many improvements over the original FAMS model including:

- γ A more straight forward depiction of the flow of funds
- γ Projection of revenues that includes consideration of:
  - the effect of growth in customers upon fixed charge revenues and,
  - the effects of growth in customers and changes in usage patterns upon usage charge revenues
- γ The ability to perform:
  - a *capital requirements driven analysis* which determines the level of revenue necessary to fund specified capital improvement program requirements, and/or
  - a *revenues driven analysis* which determines the window of funding available for capital improvement program requirements in each year of the forecast period given the specified limit on rate revenue increases.
- γ The ability to provide extended projection periods of up to 10-years, with anticipatory projection periods for up to 20 years.

We are currently using FAMS-XL© in projects for many cities and counties.

To further demonstrate the ability of our Firm to provide superior utility economics services, it is important to note that Mike currently sits on the Rates and Charges Subcommittee for the AWWA, where he is co-authoring a Rates, Fees and Charges Manual for publication by the AWWA.

What is significant to this project is that the section of this manual for which Mike has sole responsibility is the Revenue Requirements Determination section. The other members of the AWWA Rates and Charges Committee felt that Mike had the most "hands-on" experience and overall knowledge where local government utility revenue sufficiency, capital planning and rate making in general were concerned.

Mike has written, been published, educated and/or made presentations on water, wastewater, reclaimed water and stormwater issues including water and wastewater revenue sufficiency for the following:

*/ American Water Works Association  
/ Florida Water Resources Conference  
/ Volusia Water Alliance  
/ Orange County Utility Consortium  
/ St. Johns River Water Mgt. District,  
/ Lee County Water Authority,*

*/ St. Johns Co. Water & Sewer Authority,  
/ US Environmental Protection Agency,  
/ Florida Department of Environmental  
Regulation, Bureau of Wastewater  
Management and Grants,*



Mike has written and presented many papers and articles which speak to the issues included in a study such as this. These include:

- ⌘ **AWWA MANUAL - RATE MAKING FOR SMALL UTILITIES** - Co-Authoring for AWWA. Due for publication in 2004.
- ⌘ **INTEGRATION OF CAPITAL AND FINANCIAL PLANNING** - Written and presented at the Florida Water Resources Conference-2003 -Tampa, Florida
- ⌘ **FINANCIAL IMPLICATIONS OF ALTERNATIVE WATER SUPPLY** - Written and presented at the Florida Water Resources Conference-2003 Tampa, Florida
- ⌘ **THE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE & REVENUE** Presented at the Florida Water Resources Conference-2003 Tampa, Florida
- ⌘ **Utility Rate Studies** - A paper and presentation to the Gulf Coast Chapter of the Florida Governmental Finance Officers Association - 2002.
- ⌘ **IMPLEMENTATION OF RECLAIMED WATER RATES & METERING** - Co-Authored With Al Castro, P.E. – Orange County Utilities, written and presented at the Florida Water Resources Conference-2002 Orlando, Florida, and published in the FWR Journal - 2002
- ⌘ **EVALUATING & SETTING RATES** - Written and presented at the Water Environment Federation, Dallas, Texas 1998
- ⌘ **RECLAIMED WATER RATE MAKING** - Written and presented at the AWWA 1998 Water Reuse Symposium in Orlando, Florida (February 1998)
- ⌘ **AN AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF REUSE SYSTEMS** - Written and presented at the AWWA 1994 Water Reuse Symposium in Dallas, Texas (March 1994)
- ⌘ **WATER RATE MAKING FOR GOVERNMENTAL UTILITIES** - This paper was developed for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area)

Mr. Burton has also assisted his clients in the development of rate programs that meet the requirements and mandates of:

- γ *The Southwest Florida Water Management District,*
- γ *The South Florida Water Management District,*
- γ *The Suwannee River Water Management District,*
- γ *The Northwest Florida Water Management District, and*
- γ *The St. Johns River Water Management District*



Burton & Associates is a vital company emerging as one of the premiere Utility Consulting companies in the Southeast. Our consultants possess the breadth and depth of knowledge that will enhance each project and provide our clients with substantial resources.

***B. Key Members Of Our Staff***

**Steven McDonald** has recently provided water, sewer, stormwater and/or reclaimed utility economics consulting services to Clay County Utility Authority, the Cities of Clearwater, Cape Coral, Cooper City and Fort Myers. His other Burton & Associates clients include New Port Richey and Tarpon Springs, where he has provided billing unit analyses and bill frequency analyses in support of the rate making process. Steven is an economist who has over thirteen years of experience in the development of econometric models for the purpose of demand forecasting analyses, and financial analyses.

Steven began his career with Fishkind & Associates, a Florida based economic consulting firm, where he provided these services to his clients for six years, and has continued to apply his expertise on projects focusing on economic and environmental issues for local governments in Florida. Over the past twelve years, he has developed a high degree of technical expertise balanced with strategic management experience from high profile, innovative public and private projects. His education and technical expertise lies in the areas of public policy and financing, financial modeling and analysis, economic modeling and forecasting, strategic planning and analysis, and market and industry analysis.

Steven's consulting, business, teaching, and government experience has allowed him to develop a solid understanding of political environments, financial and capital markets, economic principles, and statistical and research methods. In addition to his ability to perform fully allocated cost of service rate studies, he has the qualifications and unique skills required to successfully model and analyze water use patterns, perform unaccounted water audits, and customer billing and bill frequency analyses.

Another member of our team is **Andrew Burnham**. Andy is a Utilities Rate Analyst. He has four years of experience on utility projects that include revenue sufficiency analyses and development of comprehensive financial plans, modeling of financial implications of energy policies, rate design, wholesale cost of service analyses, and contract administration. He has frequently prepared expert witness testimony and provided affidavits in state and federal proceedings. Andy has been responsible for a variety of issues and initiatives, including the coordination of federal regulatory filings for our client, Consumers Energy Company - a public electric and gas utility that serves over 3 million customers. He has performed utility revenue and profit margins on a macro and micro level and has coordinated our client's initiatives in federal regulatory proceedings.



Finally, **Cynthia Griffin** served as a support consultant for our team. Over the past 13 years, Cyndy has conducted over 65 utility rate surveys for our clients. She has written ordinances, resolutions and developed policy manuals as well as rates fees and charges handbooks for our clients. She provides project management assistance to the project manager and serves as client liaison regarding project deliverables and quality control.

### **C. History of Firm**

Burton & Associates, a Florida firm, was founded by Mr. Michael Burton in April of 1988 and has specialized since its inception in water resources economics, that is, water and wastewater rate structure review, utility revenue sufficiency analyses, cost of service analyses, utility financial planning, rate making and the integration of financial planning and rate making with the capital planning process. Burton & Associates has developed proprietary software and an interactive process specifically to accomplish the integration of the financial planning and rate making process with the capital planning process.

Burton and Associates is a specialty firm. The focus of our practice is water resources economics. We assist numerous local governments throughout the state of Florida in the conduct of water, wastewater, reclaimed water and stormwater rate studies (which include rate structure review and revenue sufficiency analyses), the development of Five Year Financial Plans for these utilities and in the development of Capital Finance Plans for the funding of required water, wastewater, reclaimed and stormwater infrastructure. Burton and Associates is headquartered in Jacksonville Beach, Florida with an office also in Orlando, Florida. Since our inception in 1988, our practice has focused almost exclusively with City and County governments, private utilities, agencies, authorities and special districts.

### **D. Our Services**

We regularly use our proprietary Funding Analysis and Management System (**FAMS-XL©**), in the conduct of revenue sufficiency analyses for our clients.

Our city and county clients have the need to regularly meet financial goals and regulatory requirements and therefore request that we conduct periodic studies for them that evaluate the overall financial condition of their utility. During the course of these studies, we utilize our proprietary interactive process and **FAMS-XL©** in order to cost effectively examine all viable funding sources, capital requirements, and means of financing. We then develop short term (five years), medium term (10 years) and/or long term (20+ years) financial management programs, including a capital finance plan that will:

- 1) Provide adequate funding to meet projected capital improvement program requirements as well as other funding requirements facing the Utility,*
- 2) Comply with outstanding and/or new bond covenants,*



- 3) *Address and comply with regulatory requirements, and*
- 4) *Minimize the impact upon the Utility's customers.*

Each of these criteria is important for the conduct of a successful revenue sufficiency analysis. Also, each utility is unique and it is important to newly consider review each aspect of the utility each time a revenue sufficiency analysis is conducted.

Rate structure changes can also be reviewed and redesigned interactively with customer impact assessment, allowing clear vision of the implications of rate making decisions during this process.

### **1) Cost of Service/Rate Studies & Financial Management Programs**

We regularly use our proprietary Funding Analysis and Management System (**FAMS-XL©**), in the conduct of revenue sufficiency analyses, retail and wholesale cost of service and rate studies and utility valuation analyses for water, sewer and storm water utilities. In the development of feasible rate programs, **FAMS-XL©** allows 1) cost effective testing of "what-if" scenarios regarding funding of alternative capital requirements, 2) evaluation of alternative sources and means of financing, and 3) development of viable short term (five years) medium term (10 years) and long term (20+ years) financial management programs, including a capital finance plan to provide adequate funding to meet projected capital improvement program requirements and a rate plan to meet annual revenue requirements. During our development of a rate adjustment plan that will adequately respond to the fiscal requirements of the Utility while meeting regulatory mandates, we try to structure a plan structure that will keep rates as low as possible. Required adjustments can be developed interactively with customer impact assessments, allowing clear vision of the implications of rate making decisions.

### **2) Interactive Decision Workshops**

We regularly use our **FAMS-XL©** automated model as a decision support tool in the conduct of "real time" decision workshops with utility staff, management and elected officials. In these sessions, we use state of the art automated presentation and analysis techniques to demonstrate, with the **FAMS-XL©** model "up and running", the impact of various assumptions. Through this interactive process, we are able to assist in the development of optimum solutions regarding alternative capital improvement programs, service delivery configurations, financing sources, rates and charges and the impact of each alternative scenario upon rate payers within various classes of customers.

### **3) Integration of Financial and Capital Planning**

In addition to our cost of service and rate making expertise, we also bring a unique perspective and contribution to engineering planning and evaluation projects that is not adequately addressed by the typical approach to such projects. That is the ability, by use of our automated modeling, to quickly evaluate the full financial impact of



alternative capital plans and financing sources as part of the master planning and or capital improvement program development process.



#### **4) Capital Finance Plans**

We also work regularly with financial advisors and underwriters in the development of capital finance plans for municipal clients, and have prepared numerous Rate Consultant's Reports, including revenue forecasts, for inclusion in the Official Statements of Water and Wastewater revenue bond issues or in applications for low interest State loans.

#### **5) Rate Design**

We are also industry leaders in the evaluation of rate structure and the development of rate structure design, including conservation rate programs, capacity fees and specific service charges. We are at the leading edge in the development of water conservation rates as evidenced by our recent work with the St. Johns River Water Management District.

#### **6) Interjurisdictional Coordination**

We are regularly involved in the conduct of cost of service and rate studies where the ultimate service is provided to users in multiple jurisdictions. Sometimes this involves the development of wholesale rates in accordance with specific interlocal agreements, sometimes this involves the development of a wholesale rate to be applied by ordinance to all wholesale or bulk use customers and sometimes this involves the development of rates to be charged to individual end users in other jurisdictions. We are also experienced in the development of outside of jurisdiction surcharges based upon cost of service and in the compilation of data and the allocation of costs in such a way as to derive fair and equitable rates for all of the above referenced types of interjurisdictional service.

#### **7) Utility Valuations**

We regularly assist clients in the conduct of utility valuation analyses. Burton & Associates has extensive experience in the use and proper allocation of all commonly used system and property valuation approaches, such as the depreciated replacement cost approach, the comparable sales approach, the income approach, etc. However, the differentiating factor regarding our approach to utility valuation is our ability to use our **FAMS-XL©** modeling approach to precisely determine 1) the funds available for acquisition supportable solely from the revenues of the acquired system, including consideration of required remedial capital improvements, and 2) the effects upon the rates of the acquiring utility, if any, of "negotiated" acquisition price alternatives if negotiations for purchase are initiated.



**8) Expert Witness Testimony**

We regularly provide expert witness testimony regarding utility litigation and regulatory matters. We have provided such expert witness testimony in circuit court cases.

**9) Leader in Use of Automated Analysis Techniques**

We have developed for our clients a truly revolutionary interactive process utilizing **FAMS-XL®**. Our automated utility financial planning and rate allocation modeling system which we use in the conduct of a study such as this. **FAMS-XL®** and our interactive process are described on the following page. We use our unique process and interactive model on each of our revenue sufficiency analysis projects with great success. We tailor our model to meet each client's specific financial requirements and utility management objectives using their specific data. We provide for them a clear vision of all viable options with regard to the financial management of their utility and the implications of possible decisions upon utility customers.



# THE INTERACTIVE PROCESS

We have developed a truly revolutionary interactive, automated process. This process utilizes **FAMS-XL®**, our automated utility financial planning and rate allocation modeling system which we use to develop alternative Five Year Financial Management Plans for your utility. The Plans are necessary to develop alternative rate programs to provide the required resources to support the above mentioned Financial Management Plans. A **FAMS-XL®** schematic is presented on the following page.

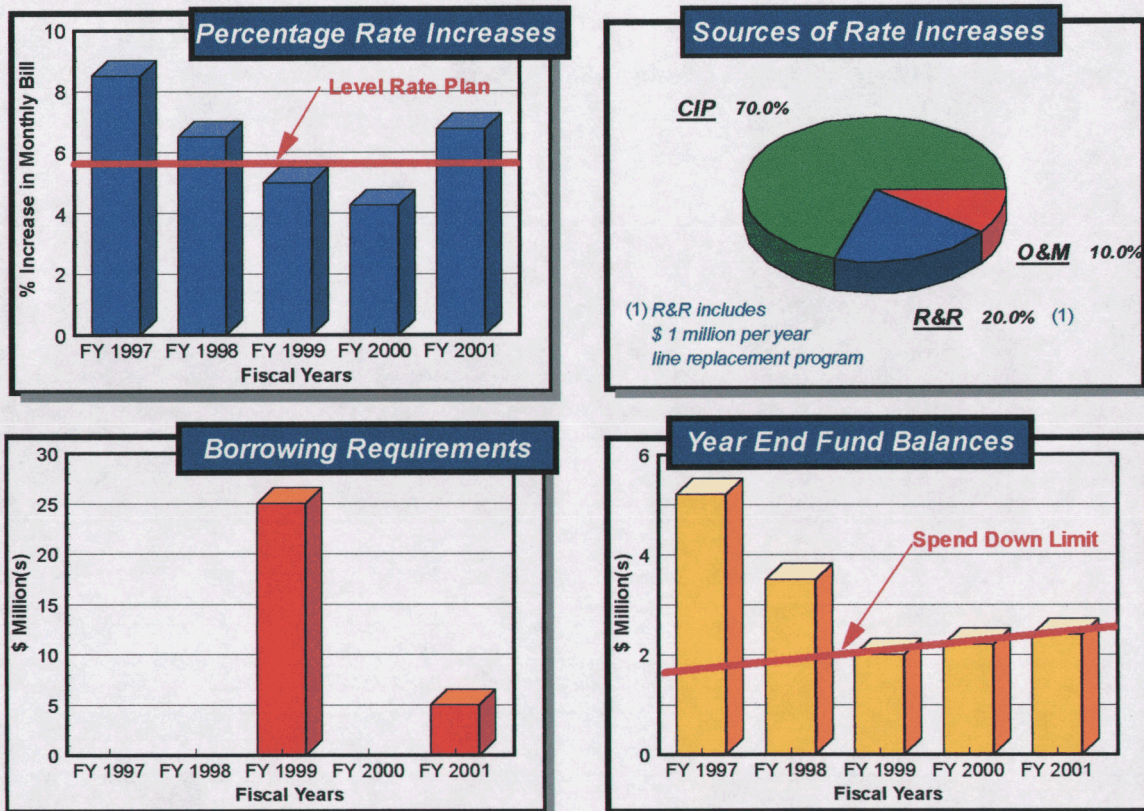
The truly differentiating aspects of our interactive, automated process are that:

1. **FAMS-XL®** simulates all aspects of your utility's financial dynamics over a five year forecast period,
2. **FAMS-XL®** presents key financial indicators graphically on a "control panel" which allows you to visually see the implications upon key financial indicators of alternative scenarios, and
3. We conduct alternative scenario analyses in "interactive sessions" with you, so that in one morning or afternoon you can explore, and receive immediate feedback, regarding numerous "what if" scenarios such as alternative capital improvement programs, lower or higher levels of working capital reserves, alternative funding sources for capital projects, etc.

The most important aspect of this process is the *interactive work sessions* we conduct at several points during the course of the project. During these interactive sessions we have our computer models up and running and use the latest in computer monitor projection equipment to display the outputs from our analysis in various graphical formats on a four by five foot screen. Descriptions of the graphical representations presented in interactive work sessions are presented on below.



**Five Year Revenue Sufficiency Analysis:** We typically present the results of our analyses by displaying key financial indicators in four quadrants of a colorful graphical display, projected with our state-of-the-art monitor/projector equipment during interactive client work sessions. An example of such a display is presented below.



This display presents the results of a five year revenue sufficiency analysis. In this display the upper left quadrant shows the required percentage rate increases required in each year of a five year rate plan. This quadrant also shows a level rate plan which dampens rate shock in any one year. The pie chart in the upper right quadrant shows the sources of the rate increase. This gives insights into areas in which cost controls might reduce the required rate increases. The chart in the lower right quadrant shows year end fund balances of unrestricted reserves after funding eligible capital projects and R&R expenses and compares the reserve levels with the working capital reserve target, and the chart in the lower left quadrant shows the bond issues necessary to fund the five year Capital Improvement Program after funding as much as possible with unrestricted reserves and capital cost recovery fees.



Other financial indicators can also be monitored graphically as we test “what if” scenarios, depending upon the circumstances of the City. For example, we often include a five year bar chart of debt service coverage. This is often important in cases where rate covenants do not provide a revenue “buffer” such as capital cost recovery fees in the coverage calculation.

We can run numerous alternative scenarios during these interactive sessions and City staff can see graphically the implications, to key financial and customer impact indicators, of changes to variables in the rate making process such as timing and amount of capital projects funded in the capital improvements program (CIP), various levels of renewal and replacement expenditures, adjusting spend-down limits on reserve funds, rate structure changes, alternatives for levelizing rate increases over multiple years, growth rates, cost escalation factors and numerous other variables.

These interactive sessions provide the basis for you to make informed decisions relating to the rate making process by allowing you to see and understand, first hand, and maybe for the first time, the full range of the financial dynamics of your utility, all displayed at the same time.

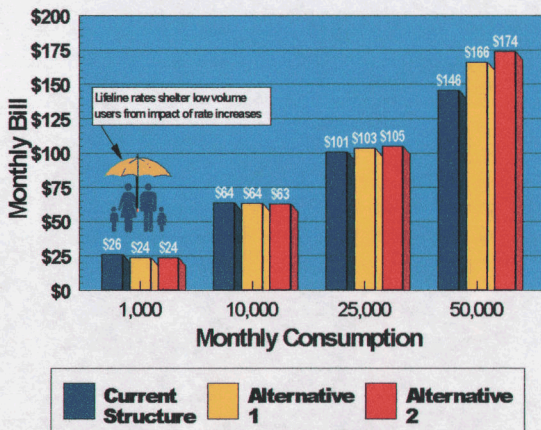
Rate Design : As with the development of a five year revenue sufficiency analysis and financial management program, in these work sessions, we will conduct alternative scenario analyses regarding alternative rate structure designs interactively with City staff with our rate models up and running on the computer. This allows us to develop final rates and fees that generate sufficient revenues, yet are structured so as to be sensitive to your objectives with regard to customer impact. Customer impact will be examined for each utility rate structure alternative identified. This analysis examines the impact of alternative rates upon customers of varying sizes and with various usage profiles within customer classes.

Examples of two types of customer impact analysis charts used in our interactive work sessions are presented on the following page.



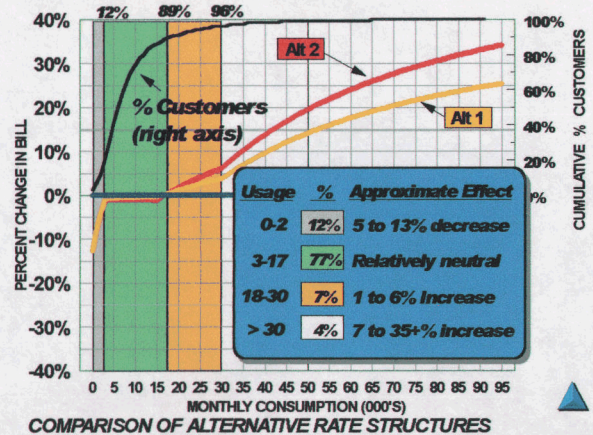
### Comparison of Monthly Bills - All Alternatives

Residential Customers - 5/8" X 3/4" METERS



### RESIDENTIAL CUSTOMERS

5/8" X 3/4" METERS - WATER & SEWER



The chart on the left examines the impact of two rate structure alternatives on single family customers at various identified levels of water usage. The chart on the right examines the impact of the same two rate structure alternatives in terms of percentage increase in monthly bill along a continuum of water usage from 0 to 95,000 gallons per month. This chart also shows the percentage of customers at all levels of usage. This can be used to determine the percentage of customers affected by each rate structure alternative at different levels of usage.



BEFORE THE ARIZONA CORPORATION COMMISSION  
DOCKETED

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

APR 24 2001

DOCKETED BY

ad

IN THE MATTER OF THE JOINT  
APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER DIVISION  
OF CITIZENS UTILITIES COMPANY;  
MOHAVE WATER DIVISION OF CITIZENS  
UTILITIES COMPANY; SUN CITY WATER  
COMPANY; SUN CITY SEWER COMPANY;  
SUN CITY WEST UTILITIES COMPANY;  
CITIZENS WATER SERVICES COMPANY  
OF ARIZONA; CITIZENS WATER  
RESOURCES COMPANY OF ARIZONA;  
HAVASU WATER COMPANY AND TUBAC  
VALLEY WATER COMPANY, INC., FOR  
APPROVAL OF THE TRANSFER OF THEIR  
WATER AND WASTEWATER UTILITY  
ASSETS AND THE TRANSFER OF THEIR  
CERTIFICATES OF PUBLIC CONVENIENCE  
AND NECESSITY TO ARIZONA-  
AMERICAN WATER COMPANY AND FOR  
CERTAIN RELATED APPROVALS.

DOCKET NOS. W-01032A-00-0192  
W-01032B-00-0192  
W-01032C-00-0192  
S-02276A-00-0192  
WS-02334A-00-0192  
WS-03454A-00-0192  
WS-03455A-00-0192  
W-02013A-00-0192  
W-01595A-00-0192  
W-01303A-00-0192

DECISION NO. 63584OPINION AND ORDER

DATE OF HEARING: September 27, 2000

PLACE OF HEARING: Phoenix, Arizona

PRESIDING ADMINISTRATIVE  
LAW JUDGE: Karen E. Nally<sup>1</sup>

IN ATTENDANCE: Chairman William A. Mundell and  
Commissioner Jim Irvin

APPEARANCES: Mr. Michael M. Grant, GALLAGHER &  
KENNEDY. and Mr. Craig Marks, Associate  
General Counsel, on behalf of Citizens  
Communications Company;

<sup>1</sup> This Recommended Opinion and Order was prepared by Administrative Law Judge Marc E. Stern upon review of the testimony and exhibits admitted into evidence in the proceeding.

1 Mr. Norman D. James. FENNEMORE CRAIG, on  
2 behalf of Arizona-American Water Company;

3 Mr. Daniel W. Pozefsky, Staff Attorney, on behalf  
4 of Residential Utility Consumer Office;

5 Mr. Bill Meek on behalf of the Arizona Utility  
6 Investors Association; and

7 Ms. Teena Wolfe, Staff Attorney, Legal Division,  
8 on behalf of the Utilities Division of the Arizona  
9 Corporation Commission.

10 BY THE COMMISSION:

11 On March 24, 2000, Citizens Utilities Company, now known as Citizens  
12 Communications Company, together with its Agua Fria Water Division, Mohave Water  
13 Division, Sun City Water Company, Sun City Sewer Company, Sun City West Utilities  
14 Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of  
15 Arizona, Havasu Water Company and Tubac Valley Water Company (collectively "Citizens"),  
16 and Arizona-American Water Company ("Arizona-American") filed with the Arizona Corporation  
17 Commission ("Commission") a Joint Application to Transfer Assets and Related Approvals  
18 ("Application") of Citizens' water and wastewater utility assets in Arizona including Citizens'  
19 Certificates of Convenience and Necessity ("Certificates") held by Citizens to Arizona-American.

20 On May 17, 2000 and on June 1, 2000, the Residential Utility Consumer Office  
21 ("RUCO") and the Arizona Utility Investors Association ("AUIA") filed applications for leave to  
22 intervene. Subsequently, intervention was granted to RUCO and to AUIA.<sup>2</sup>

23 On May 30, 2000, by Procedural Order, a hearing was scheduled on the above-captioned  
24 matter for September 27, 2000. Citizens and Arizona-American caused public notice of the  
25 Application and hearing thereon to be published in various newspapers throughout Arizona. In

26 <sup>2</sup> On April 10, 2000, Mr. Marvin Lustiger filed an application to intervene in the above-captioned matter.  
However, by subsequent filing, Mr. Lustiger clarified that he was only interested in electric or telephone  
service in Mohave County, and therefore, Mr. Lustiger's request to intervene was deemed to have been  
withdrawn.

1 addition. Citizens notified all its customers of the Application by means of a written bill insert.

2 On September 14, 2000, a formal public comment session was held in Sun City.

3 On September 26, 2000, the Commission's Utilities Division ("Staff") filed a Settlement  
4 Agreement ("Agreement") marked Exhibit A which is incorporated by reference and attached  
5 hereto.

6 On September 27, 2000, a full public hearing took place at the offices of the Commission  
7 in Phoenix, Arizona. Citizens, Arizona-American, RUCO, AUIA and Staff were present with  
8 counsel. Following the presentation of evidence, Citizens and RUCO submitted written briefs on  
9 the issue of whether Citizens should be required to pay a portion of the gain resulting from the  
10 sale of its utility assets to Citizens' customers. The matter was then taken under advisement  
11 pending submission of a recommended Opinion and Order to the Commission.

## 12 DISCUSSION

### 13 Parties to the Transaction

14 Citizens, through its various divisions and subsidiaries, provides water, wastewater,  
15 electric, natural gas and telecommunications services to approximately 1.8 million customers in  
16 22 states, including in excess of 100,000 customers in Arizona. Citizens' current business  
17 strategy is to focus on the provision of telecommunications services and the expansion of those  
18 operations through the acquisition of wire centers and access lines from other providers,  
19 primarily in rural areas, as was the case in the recently approved transfer of rural wire centers by  
20 Qwest Corporation to Citizens Utilities Rural Company, Inc.

21 In connection with this business strategy, Citizens intends to sell its water, wastewater,  
22 electric, and natural gas utilities and to apply the proceeds to finance acquisitions and other  
23 business activities in the telecommunications area. In April 2000, Citizens also announced the  
24 sale of its Louisiana natural gas operations for \$375 million.

25 The Commission granted Arizona-American a Certificate of Convenience and Necessity  
26 to provide water service to approximately 4,600 customers in portions of the Town of Paradise

1 Valley, the City of Scottsdale and certain unincorporated portions of Maricopa County. Arizona-  
2 American is a wholly owned subsidiary of American Water Works Company, Inc. ("AWW")  
3 which is the largest privately-owned water utility system in the United States, providing water,  
4 wastewater and other water resource management services to approximately 3 million customers  
5 in 23 states, and with a reported consolidated net plant of \$5.1 billion and operating revenues of  
6 \$1.26 billion. AWW's December 31, 1999, balance sheet reflected a capital structure of 58.4  
7 percent long-term debt, 2.3 percent preferred stock and 39.3 percent common equity.

8 In 1999, AWW's subsidiaries invested \$467 million in improving and upgrading their  
9 facilities, and for the past several years, AWW has made similar expenditures averaging nearly  
10 \$400 million per year. According to AWW witnesses, AWW's acquisition policy is motivated,  
11 at least in part, by anticipated capital expenditures resulting from new regulatory requirements  
12 and programs and the need to replace or upgrade aged infrastructure to maintain high quality  
13 service. With the additional water and wastewater systems, AWW and its subsidiaries hope to  
14 obtain economies of scale and to strengthen their financial capability by expanding their  
15 customer base.

16 The Transaction

17 On October 15, 1999, Citizens, Arizona-American and AWW entered into an agreement  
18 under which Arizona-American is to acquire the water and wastewater assets and the Certificates  
19 held by Citizens in Arizona ("the Acquired Assets") for approximately \$231 million, subject to  
20 adjustment at the time of closing. The purchase price will be increased based on utility plant  
21 added by Citizens after June 30, 1999, and will be reduced based on plant retirements occurring  
22 after such date. The Acquired Assets include all utility plant, property and interests relating to  
23 Citizens' water and wastewater operations in Arizona, with certain exceptions, including assets  
24 commonly used by Citizens in connection with other utility operations, cash and cash  
25 equivalents, and assets related to benefit plans. Citizens will also retain certain liabilities,  
26 including obligations for taxes payable, obligations relating to employee compensation and

1 benefits, and refunds of certain advances in aid of construction. Arizona-American will assume  
2 and be liable for all contracts and permits assigned at closing, certain Industrial Development  
3 Revenue Bonds ("IDRBs"), and unperformed obligations.

4 Arizona-American will finance the purchase of the Acquired Assets by a combination of  
5 debt and equity. AWW has recently formed a new subsidiary, American Water Capital  
6 Corporation ("AWCC"), that will provide loans and other financial services to AWW  
7 subsidiaries. Initially, Arizona-American will borrow funds from AWCC on a short-term basis,  
8 and receive additional funds in the form of common equity directly from AWW. Within 12  
9 months, the short-term debt will be converted to long-term debt with a planned capital structure  
10 which will contain 55 to 60 percent debt and 45 to 40 percent common equity, including  
11 Arizona-American's existing debt and equity capital and the Citizens' IDRBs that will be  
12 assumed.<sup>3</sup>

13 The Position of Staff and the Staff Settlement Agreement

14 Staff generally supported the application, and recommended that the transfer of the  
15 Acquired Assets to Arizona-American be approved, subject to several conditions.

16 First, Staff recommended that the Commission defer any decision on the ratemaking  
17 treatment of an acquisition adjustment, deferred taxes, excess deferred taxes, and investment tax  
18 credits until a future rate proceeding.

19 Second, Staff recommended that the decision to allow recovery of an acquisition  
20 adjustment be based on Arizona-American's ability to demonstrate that clear, quantifiable and  
21 substantial net benefits have been realized by ratepayers, which would not have been realized  
22 had the transaction not occurred.

23 Third, Staff recommended that Arizona-American should be ordered to file, 13 months  
24

25 <sup>3</sup> Arizona-American has filed an application for authority to issue short-term and long-term debt in  
26 connection with financing the purchase of the Acquired Assets, which is pending in Docket No. W-  
01303A-00-0929.

1 after the closing of the transaction, a report comparing the number of complaints received by the  
2 Commission prior to and after the transaction. The report should provide an explanation of any  
3 significant changes in the number and importance of the complaints. Staff would then review  
4 this report and, if necessary, make a recommendation to the Commission of any further action to  
5 be taken.

6 Fourth, Staff recommended that an imputation of the benefits related to advances in aid  
7 of construction ("AIAC") and contributions in aid of construction ("CIAC") received by  
8 Arizona-American be made in subsequent rate proceedings for each former Citizens' system.  
9 The purpose of the imputation would be to recognize those portions of the Acquired Assets that  
10 were financed by AIAC and CIAC which Arizona-American will not be assuming. Staff also  
11 recommended that imputed AIAC be amortized over a period of 10 years, while imputed CIAC  
12 would be amortized below the line in the same manner as would have otherwise occurred.

13 Fifth, Staff recommended that Arizona-American be required to seek Commission  
14 approval of any amendments to, or transfers of agreements relating to the purchase of water,  
15 such as Citizens' Central Arizona Project ("CAP") water subcontracts.

16 Finally, Staff recommended that the Commission order Arizona-American to charge  
17 ratepayers for services based on the rates, charges, and service tariffs in effect at the time of  
18 closing in each Citizens service territory, until such time as Arizona-American files general rate  
19 proceedings for each service territory.

20 In its rebuttal filing, Arizona-American indicated that it would stipulate to the conditions  
21 recommended by Staff, including the deferral of a decision concerning the recognition of an  
22 acquisition adjustment and the conditions under which an acquisition adjustment would be  
23 recognized, and would adopt and utilize the rates and charges for service, and all other service  
24 tariffs currently in effect in each of the affected Citizens service territories. However, Arizona-  
25 American disagreed with imputing Citizens' AIAC and CIAC to Arizona-American.

26

1 Subsequently, Staff and Arizona-American entered into the Agreement, which resolved  
2 all areas of disagreement relating to the terms and conditions under which the Acquired Assets  
3 would be transferred to Arizona-American.

4 Pursuant to the terms of the Agreement, Citizens' AIAC and CIAC will be imputed to  
5 Arizona-American for ratemaking purposes. This adjustment will reduce rate base. The amount  
6 of the AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be  
7 based on the actual balances shown on Citizens' regulatory books as of the date of the transfer of  
8 the Acquired Assets, adjusted as follows: an amount equal to 5 percent of Citizens' AIAC  
9 balance at the time of the transfer will be reclassified as CIAC and added to the CIAC balance,  
10 and the same amount will be deducted from Citizens' AIAC balance. The adjusted amount of  
11 AIAC will be amortized below the line (i.e., no impact on expenses) over a period of 6.5 years,  
12 with the amortization period beginning on the day on which the transfer takes place. The  
13 adjusted amount of CIAC will be amortized above the line (i.e., as a reduction to depreciation  
14 expense that would otherwise be recoverable in rates) over a period of 10 years, with the  
15 amortization period beginning on the day on which the transfer takes place. The imputation of  
16 AIAC and CIAC to Arizona-American is solely for ratemaking purposes, and not for financial  
17 accounting or any other purpose.

18 In addition to agreeing to the imputation of AIAC and CIAC, Arizona-American agreed  
19 that the Commission may adopt Staff's remaining conditions concerning the sale and transfer of  
20 the Acquired Assets. Staff and Arizona-American also agreed that Arizona-American's request  
21 for an accounting order to establish the amortization method for any acquisition adjustment  
22 resulting from the transaction should be deferred until a future rate case.

23 Based on these agreements by Arizona-American, Staff is recommending that the  
24 Commission should approve the transfer of the Acquired Assets to Arizona-American and should  
25 not impose any additional terms, conditions or requirements on Arizona-American.  
26

1 During the hearing, Staff and Arizona-American voiced their support of the Agreement,  
2 believing that its terms are reasonable and in the public interest. AUIA also expressed its  
3 support for the Agreement. However, the remaining party to the proceeding, RUCO, objects to  
4 the approval of the Agreement and to the transaction generally, as discussed below.

5 Position of RUCO

6 RUCO maintains the proposed transaction believing that it is not in the public interest  
7 and should not be approved unless it is restructured. RUCO argued that the transaction could  
8 possibly, in the future, impact on ratepayers. While RUCO did not disagree that consideration of  
9 an acquisition adjustment should be deferred until a future ratecase, RUCO argued that the gain  
10 resulting from the sale of the Acquired Assets received by Citizens, i.e., the difference between  
11 the net book value of the Acquired Assets and the purchase price being paid by Arizona-  
12 American, should be shared equally between Citizens stockholders and the ratepayers. RUCO  
13 further argued that the Commission should adopt a set of criteria to determine what, if any,  
14 acquisition adjustment should be allowed in a future rate proceeding. RUCO also suggested that  
15 to make this transaction in the public interest, among other things, the transaction should be  
16 contingent upon Arizona-American's Board of Director's approving a letter pledging to invest no  
17 less than 15 percent of the purchase price in acquisitions and capital improvements of "resources  
18 stressed" water and/or wastewater utilities in Arizona no later than 72 months after the date the  
19 Commission authorizes the transaction.

20 Analysis of Disposition of Gain Issue

21 RUCO contended that fundamental principles of fairness support sharing the gain in this  
22 case. RUCO maintained that ratepayers have shared in the risk associated with the operation of  
23 the utility assets and that it necessarily follows that ratepayers should share in the gain realized  
24 from the sale of those assets. According to RUCO, this risk sharing results from the accounting  
25 treatment provided in the National Association of Regulatory Utility Commissioners  
26 ("NARUC") Uniform System of Accounts when an asset is retired prematurely, i.e., before a



1 utility fully recovers its original cost via depreciation. RUCO also stated that prior Commission  
2 decisions support gain sharing.

3 In response, Citizens argued that ratepayers have assumed no risk in connection with the  
4 operation of Citizens' water and wastewater utility business. Investors have provided the  
5 utility's capital and bear the financial risks associated with its operations. Therefore, the  
6 investors should be entitled to receive any gain resulting from the transaction. As to prior  
7 Commission decisions, Citizens cited three analogous cases involving a sale of an entire line of  
8 utility business in which the Commission did not order gain sharing.<sup>4</sup> Citizens also cited  
9 Decision No. 60167 (April 17, 1997) in which a utility's natural gas business was sold at a loss.  
10 In that case, the Commission did not order the customers to share in the loss.<sup>5</sup>

11 This proceeding is similar to the three cases cited earlier by Citizens since it is selling its  
12 entire business and will have no further water and wastewater operations in Arizona. The  
13 Commission has never required gain sharing under these circumstances. In the Contel of the  
14 West matter, in which Citizens was authorized to acquire all of Contel's telephone properties in  
15 Arizona, Staff urged that the gain resulting from the sale be shared equally with ratepayers.  
16 However, the Commission rejected gain sharing in that case.

17 We also do not believe that ratepayers bear a substantial risk by virtue of receiving utility  
18 service in this case. The particular accounting treatment for depreciable plant provided under the  
19 Uniform System of Accounts does not shift risk to customers, but rather prescribes particular  
20 accounting adjustments to properly reflect rate base before and after the retirement of a plant  
21 item. The utility's owners, i.e., its shareholders, ultimately bear the risks associated with the  
22 utility's business. While regulation may reduce those risks relative to most non-regulated  
23

24  
25 <sup>4</sup> Citizens/Southern Union, Decision No. 57647 (December 2, 1991); Contel/Citizens, Decision No. 58819,  
(October 17, 1994); and GTE/Citizens, Decision No. 62648 (June 13, 2000).

26 <sup>5</sup> Ajo Improvement Company/Southwest Gas, Decision No. 60167 (April 17, 1997).

1 businesses. regulation does not shift that risk to ratepayers, who are entitled to receive utility  
2 service at rates set by the Commission.

3 Accordingly, we do not find it appropriate under the circumstances in this case to require  
4 Citizens to share with ratepayers any part of the gain it receives from the sale of the Acquired  
5 Assets to Arizona-American. However, this will not preclude the Commission from protecting  
6 the ratepayers in the future. In any claim for an acquisition adjustment in a future rate case, the  
7 Commission can strictly scrutinize the foundation of the claim and determine what amount, if  
8 any, should be approved.

9 Analysis of Remaining RUCO Recommendations

10 RUCO's other recommendations pertained to the structure of the transaction and  
11 RUCO's concerns that this structure could lead to rate increases in the future. RUCO's concern  
12 primarily relates to the fact that Arizona-American will not be assuming all of Citizens'  
13 liabilities associated with AIAC and CIAC, which totaled approximately \$80.8 million and \$4.7  
14 million, respectively, at December 31, 1999. According to RUCO, the structure of the  
15 transaction will result in the elimination of AIAC and CIAC as reductions from rate base, which  
16 will in turn result in an increase in rate base and, eventually, to rate increases.

17 We believe that the Agreement appropriately deals with this issue. Citizens' AIAC and  
18 CIAC will be recognized for ratemaking purposes by Arizona-American, even though Arizona-  
19 American is not assuming those liabilities. By virtue of this imputation, the impact of the  
20 structure of the transaction will be ameliorated. Based on the evidence and the testimony, the  
21 approach utilized in the Agreement is reasonable.

22 Further, the evidence indicates that the transaction between Citizens, Arizona-American  
23 and AWW was the product of arms-length negotiations that occurred after Citizens had adopted  
24 its current business strategy of focusing on telecommunications services and divesting itself of  
25 its water and wastewater systems, as well as its electric and natural gas systems throughout the  
26

1 country. This is not a transaction between affiliated companies. The payment by Arizona-  
2 American will constitute an investment in the Acquired Assets.

3 RUCO also expressed concern regarding the impact of the transaction on Citizens'  
4 accumulated deferred income taxes ("ADITs"), which totaled approximately \$5.2 million as of  
5 December 31, 1999, and Citizens' investment tax credits ("ITCs"), which totaled approximately  
6 \$2.2 million as of the same date. Under the Agreement, any decision on the treatment of ADITs  
7 and ITCs will be deferred until Arizona-American seeks new rates in a future proceeding.  
8 Staff's recommendation is appropriate under the circumstances herein.

9 Next, RUCO questioned the approach proposed by Arizona-American and Staff, as  
10 adopted in the Agreement, for dealing with the possible future recognition of an acquisition  
11 adjustment in rates. RUCO agreed with Arizona-American and Staff that it is appropriate to  
12 defer consideration of any acquisition adjustment resulting from the transaction until a future rate  
13 proceeding, in order to afford Arizona-American an opportunity to demonstrate that the  
14 acquisition has provided a net benefit to ratepayers by virtue of improved operating efficiencies,  
15 economies of scale and other synergies. However, RUCO's witnesses also contended that the  
16 Commission should adopt a set formula that would be used in connection with any future  
17 determination of the amount of the acquisition adjustment.

18 We have concerns about the adoption of a set, mechanical formula to quantify a future  
19 acquisition adjustment. We believe that such a determination should be made at the time all the  
20 facts and circumstances are known. Staff's recommendation concerning the basis on which the  
21 Commission will allow the recovery of an acquisition adjustment is reasonable and in the public  
22 interest. Arizona-American is cautioned that the Commission will require Arizona-American to  
23 demonstrate that clear, quantifiable and substantial net benefits to ratepayers have resulted from  
24 the acquisition of Citizens' systems that would not have been realized had the transaction not  
25 occurred before the Commission will consider recovery of any acquisition adjustment in a future  
26 rate proceeding.

1 RUCO was also critical of Arizona-American's failure to assume all of Citizens' IDRBS.  
2 As stated, Arizona-American will assume certain IDRBS. which total approximately \$10.6  
3 million. The IDRBS that will be assumed constitute low-cost capital. The average cost of the  
4 IDRBS that will be assumed by Arizona-American was 3.55 percent per annum during 1999.  
5 RUCO believes that there may be three additional Citizens bond issues, representing low-cost  
6 capital, that will not be assumed in connection with the transaction.

7 Arizona-American, in its testimony, has acknowledged that other bonds have been issued  
8 by Citizens. The evidence indicates, however, that in contrast to the IDRBS that will be  
9 assumed, the other bonds would require unanimous consent from all bond holders in order to be  
10 assumed, which would be administratively difficult, if not impossible, to accomplish within the  
11 time frame of the transaction. The additional costs to Arizona-American to replace these low-  
12 cost IDRBS with alternative forms of financing was not ascertained.

13 We find that it would not be feasible for Arizona-American to assume the remaining  
14 bonds and it would not be reasonable to impute these bonds to Arizona-American's capital  
15 structure. The remaining bonds will continue to be an obligation of Citizens and will continue to  
16 be included in Citizens' capital structure in its ongoing telecommunications business.

17 Finally, RUCO recommends that authorization of the transaction be made contingent on  
18 Arizona-American pledging to invest not less than 15 percent of the purchase price for the  
19 Acquired Assets, or approximately \$35 million, in acquisitions and capital improvements of  
20 "resource stressed" water and/or wastewater utilities in Arizona. These acquisitions and capital  
21 improvements would have to be made within 72 months from the date on which the Commission  
22 approves the transaction.

23 The Commission recognizes that there are small water and wastewater utilities in Arizona  
24 that may need technical and financial assistance. Indeed, the Commission has provided such  
25 assistance to small water and wastewater utilities through workshops and the development of  
26 policies aimed at improving their financial viability. However, it is not reasonable to compel a



1 private utility to spend in excess of \$35 million to solve these problems, nor is it clear that the  
2 Commission has the authority to do so.

3 Arizona-American has indicated its willingness to work with the Commission in  
4 developing solutions to service problems being experienced by small, troubled utilities. By  
5 virtue of acquiring Citizens' systems in Arizona, Arizona-American will be in closer proximity  
6 to a number of these systems. and the Commission would expect Arizona-American, as  
7 circumstances warrant, to seriously consider acquiring these systems or otherwise provide  
8 technical or financial assistance. For these reasons. we do not believe it is appropriate to impose  
9 such a mandate on Arizona-American.

10 \* \* \* \* \*

11 Having considered the entire record herein and being fully advised in the premises, the  
12 Commission finds, concludes, and orders that:

13 FINDINGS OF FACT

14 1. Pursuant to authority granted by the Commission, Citizens provides public water,  
15 wastewater, electric, natural gas and telecommunications services in various parts of Arizona.

16 2. Pursuant to authority by the Commission, Arizona-American, a wholly owned  
17 subsidiary of AWW, provides public water service to approximately 4,600 customers in the  
18 Town of Paradise Valley, the City of Scottsdale and in certain unincorporated portions of  
19 Maricopa County, Arizona. Arizona-American is presently classified as a Class B water utility.

20 3. On March 24, 2000, Citizens and Arizona-American filed an Application  
21 requesting approval of the sale and transfer of Citizens' water and wastewater utility assets in  
22 Arizona together with the transfer of Citizens' Certificates to Arizona-American.

23 4. RUCO and the AUIA were granted intervention in this Docket.

24 5. Public notice of the Application and hearing thereon was published in various  
25 newspapers throughout Arizona within and in the vicinity of Citizens' and Arizona-American's  
26 certificated service areas.

1           6.     Customers of Citizens were also notified of the Application by means of a written  
2 bill insert.

3           7.     Citizens' current business strategy is to focus on the provision of  
4 telecommunication services and to expand its telecommunications subsidiaries' operations  
5 through the acquisition of wire centers and access lines from other providers, primarily in rural  
6 areas.

7           8.     In the furtherance of this business strategy, Citizens is selling its water,  
8 wastewater, electric and natural gas utilities and applying the proceeds to finance acquisitions  
9 and other business activities in the telecommunications industry.

10          9.     AWW and its subsidiaries, including Arizona-American, are the largest privately-  
11 owned water utility system in the United States, providing water, wastewater and other water  
12 resource management services to approximately three million customers in 23 states.

13          10.    AWW is financially sound, and has the experience, expertise and resources to  
14 assume and perform Citizens' public service obligations.

15          11.    On October 15, 1999, Citizens, Arizona-American and AWW entered into an  
16 asset purchase agreement under which Arizona-American will acquire all of the water and  
17 wastewater utility assets together with the requisite Certificates held by Citizens in Arizona.

18          12.    Arizona-American will pay a purchase price of approximately \$231 million which  
19 includes the assumption of approximately \$10.6 million of existing debt in the form of  
20 outstanding IDRBS. The purchase price is subject to adjustment either higher or lower based on  
21 plant additions and retirements occurring after June 30, 1999.

22          13.    Arizona-American will finance the transaction through a combination of debt and  
23 equity, resulting in Arizona-American having a capital structure of 55 to 60 percent debt and 45  
24 to 40 percent common equity. This debt to equity ratio is comparable to the capital structures of  
25 most large, publicly-traded water utilities.

26

1           14. Staff is recommending that the Application be approved for the sale and transfer  
2 of Citizens' water and wastewater utility assets including the Certificates to Arizona-American  
3 subject to the following conditions:

- 4           • that any decision on the ratemaking treatment of an acquisition adjustment,  
5 deferred taxes, excess deferred taxes and investment tax credits be deferred until a  
6 future rate proceeding;
- 7           • that if recovery of any acquisition adjustment is authorized in the future it should  
8 be based on Arizona-American's ability to demonstrate that clear, quantifiable  
9 and substantial net benefits have been realized by ratepayers in the affected areas,  
10 which would not have been realized had the transaction not occurred;
- 11           • that Arizona-American file, 30 days after the first anniversary of the transaction, a  
12 report which compares the number of complaints received by the Commission  
13 under Citizens' ownership and under Arizona-American's ownership and provide  
14 an explanation of any significant changes in the number and importance of the  
15 complaints received. Staff should review the data and, if necessary, make a  
16 recommendation to the Commission of any further action to be taken;
- 17           • that an imputation of the benefits related to AIAC and CIAC received by Arizona-  
18 American should be made in subsequent rate proceedings for each former  
19 Citizens system as recommended by Staff in its direct testimony;
- 20           • that Arizona-American shall be required to secure prior Commission approval of  
21 any amendments to, or transfers of agreements relating to the purchase of water,  
22 such as Citizens' CAP water subcontracts; and
- 23           • that Arizona-American shall charge ratepayers for services based on the rates,  
24 charges, and service tariffs in effect at the time of closing in each Citizens service  
25 territory, until such time as Arizona-American files general rate proceedings for  
26 each service territory.

19           15. On September 26, 2000, Staff filed the Agreement that is marked Exhibit A. The  
20 Agreement resolves all issues relating to the terms and conditions under which the Acquired  
21 Assets may be sold and transferred to Arizona-American.

22           16. In the Agreement, Arizona-American acknowledged that it will follow Staff's  
23 recommendations if they are adopted by the Commission.

24           17. While RUCO did not oppose the treatment of the acquisition adjustment in a  
25 future rate proceeding, it neither joined in signing the Agreement nor suggested a workable  
26

1 alternative approach to that agreed upon by Arizona-American and Staff in the Agreement in this  
2 instance based on our prior treatment of similar transactions.

3 18. Arizona-American is a fit and proper entity to acquire Citizens' utility assets and  
4 Certificates and to assume Citizens' public service obligations for the operation of the utility  
5 systems in Arizona.

6 19. Staff and Arizona-American believe that the approval of the Agreement attached  
7 hereto as Exhibit A is in the public interest.

8 20 Based on our review of the evidence, Staff's recommendations in Findings of Fact  
9 No. 14 and the Agreement are reasonable and in the public interest. Therefore, the transfer of  
10 Citizens' water and wastewater utility assets and Certificates to Arizona-American should be  
11 approved.

#### 12 CONCLUSIONS OF LAW

13 1. Citizens and Arizona-American are public service corporations within the  
14 meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282 and 40-285.

15 2. The Commission has jurisdiction over Citizens and Arizona-American and over  
16 the subject matter of the Application.

17 3. Citizens and Arizona-American provided notice of this proceeding in accordance  
18 with the law.

19 4. There is a continuing need for public water and wastewater service in the  
20 certificated service areas of Citizens.

21 5. Arizona-American is a fit and proper entity to receive the Certificates of Citizens.

22 6. The Application of Citizens and Arizona-American, the Agreement and the  
23 conditions recommended by Staff in Findings of Fact No. 14 should be approved.  
24  
25  
26

ORDER

IT IS THEREFORE ORDERED that the Joint Application for Approval to Transfer the Assets and Certificates of Convenience and Necessity of Citizens Utilities Company, now known as Citizens Communications Company, together with its Agua Fria Water Division, Mohave Water Division, Sun City Water Company, Sun City Sewer Company, Sun City West Utilities Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of Arizona, Havasu Water Company and Tubac Valley Water Company, to Arizona-American Water Company be, and is hereby, approved.

IT IS FURTHER ORDERED that Arizona-American Water Company shall comply with the terms, conditions and requirements as set forth in the Staff Settlement Agreement, attached hereto as Exhibit A, and with Staff's recommendations in Findings of Fact No. 14 hereinabove.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within 30 days from the date on which the acquisition has been completed, with the Director of the Commission's Utilities Division, appropriate documentation evidencing its acquisition of the Citizens Utilities Company now known as Citizens Communications Company's Arizona water and wastewater utility assets.

IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its customers of the effective date of the transfer of the utility assets and of its assumption of the obligation to provide water and wastewater utility services at the existing rates by means of an insert in its first regular monthly billing or by other appropriate means immediately following the date it files the documentation with the Director of the Utilities Division.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within 15 days of the date it files the documentation with the Director of the Utilities Division, a copy of the notice it provides its customers.



1 IT IS FURTHER ORDERED that Arizona-American Water Company shall continue to  
2 charge the existing rates and charges of the transferred utility companies until further Order by  
3 the Commission.

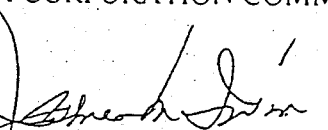
4 IT IS FURTHER ORDERED that Arizona-American Water Company shall continue to  
5 file all periodic reports, and comply with all outstanding compliance matters previously required  
6 of Citizens Utilities Company, now known as Citizens Communications Company relative to the  
7 acquired water and wastewater operations.

8 IT IS FURTHER ORDERED that Citizens Utilities Company shall maintain its books  
9 and records for the transferred utility companies for a period of 5 years from the effective date of  
10 this Decision.

11 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

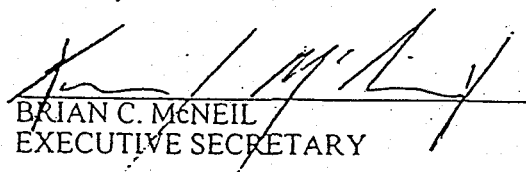
12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

13  
14   
15 CHAIRMAN

13  
14   
15 COMMISSIONER

13  
14   
15 COMMISSIONER

16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
17 Executive Secretary of the Arizona Corporation  
18 Commission, have hereunto set my hand and caused the  
19 official seal of the Commission to be affixed at the Capitol,  
20 in the City of Phoenix, this 24<sup>th</sup> day of  
21 April, 2001

22   
23 BRIAN C. McNEIL  
24 EXECUTIVE SECRETARY

25  
26 DISSENT \_\_\_\_\_

1 SERVICE LIST FOR:

CITIZENS COMMUNICATIONS COMPANY  
ET AL.

2 DOCKET NOS.:

W-01032A-00-0192; W-01032B-00-0192; W-  
01032C-00-0192; S-02276A-00-0192; WS-  
02334A-00-0192; WS-03454A-00-0192; WS-  
03455A-00-0192; W-02013A-00-0192; W-01595A-  
00-0192; and W-01303A-00-0192

6 Michael M. Grant  
GALLAGHER & KENNEDY  
7 2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
8 Attorneys for Citizens Communications  
Company, et al.

9 Norman D. James  
10 FENNEMORE CRAIG  
3003 N. Central Avenue, Suite 2600  
11 Phoenix, Arizona 85012-2913  
Attorneys for Arizona-American Water Company

12 Walter W. Meek, President  
13 Arizona Utility Investors Association  
P. O. Box 34805  
14 Phoenix, AZ 85067

15 Christopher C. Kempley, Chief Counsel  
Legal Division  
16 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
17 Phoenix, AZ 85007

18 Deborah Scott, Director  
Utilities Division  
19 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
20 Phoenix, AZ 85007

21 Daniel W. Pozefsky  
Staff Attorney  
22 Residential Utility Consumer Office  
Suite 1200  
23 2828 North Central Avenue  
Phoenix, AZ 85004

25 3099-0035/898296

26

0001920&0

DECISION NO. 63584



1 CARL J. KUNASEK  
CHAIRMAN  
2 JIM IRVIN  
COMMISSIONER  
3 WILLIAM A. MUNDELL  
COMMISSIONER  
4

BEFORE THE ARIZONA CORPORATION COMMISSION

5 IN THE MATTER OF THE JOINT  
6 APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER  
7 DIVISION OF CITIZENS UTILITIES  
COMPANY; MOHAVE WATER DIVISION  
8 OF CITIZENS UTILITIES COMPANY; SUN  
CITY WATER COMPANY; SUN CITY  
9 SEWER COMPANY; SUN CITY WEST  
UTILITIES COMPANY; CITIZENS WATER  
10 SERVICES COMPANY OF ARIZONA;  
CITIZENS WATER RESOURCES  
11 COMPANY OF ARIZONA; HAVASU  
WATER COMPANY AND TUBAC VALLEY  
12 WATER COMPANY, INC., FOR  
APPROVAL OF THE TRANSFER OF THEIR  
13 WATER AND WASTEWATER UTILITY  
ASSETS AND THE TRANSFER OF THEIR  
14 CERTIFICATES OF PUBLIC CONVENIENCE  
AND NECESSITY TO ARIZONA-  
15 AMERICAN WATER COMPANY AND FOR  
16 CERTAIN RELATED APPROVALS.

DOCKET NOS. W-01032A-00- 0192  
W-01032B-00- 0192  
W-01032C-00- 0192  
S-02276A-00- 0192  
WS-02334A-00-0192  
WS-03454A-00-0192  
WS-03455A-00-0192  
W-02013A-00- 0192  
W-01595A-00- 0192  
W-01303A-00- 0192

SETTLEMENT AGREEMENT BETWEEN  
ARIZONA CORPORATION  
COMMISSION STAFF AND ARIZONA-  
AMERICAN WATER COMPANY

17 On March 24, 2000, Citizens Utilities Company (now known as Citizens  
18 Communications Company), its Agua Fria Water Division, its Mohave Water  
19 Division, Sun City Water Company, Sun City Sewer Company, Sun City West  
20 Utilities Company, Citizens Water Services Company of Arizona, Citizens Water  
21 Resources Company of Arizona, Havasu Water Company and Tubac Valley Water  
22 Company (collectively, "Citizens") and Arizona-American Water Company  
23 ("Arizona-American") filed with the Arizona Corporation Commission  
24 ("Commission") a joint application for the approval of the sale and transfer of  
25 Citizens water and wastewater utility plant, property and assets in Arizona,  
26 including transfer of Citizens' certificates of convenience and necessity

1 ("Certificates"), to Arizona-American pursuant to A.R.S. § 40-285.

2 The Commission's Utilities Division Staff ("Staff") has investigated the  
3 application and has recommended that the application be approved by the  
4 Commission, subject, however, to certain conditions and requirements, which are  
5 set forth in the Direct Testimony of Linda A. Jaress, filed in this docket on August  
6 14, 2000, at pages 18-19 ("Staff Recommendations"). Arizona-American has  
7 indicated that it is willing to accept the Staff Recommendations, with the exception  
8 of the recommendation that Citizens' advances in aid of construction ("AIAC") and  
9 contributions in aid of construction ("CIAC") be imputed to Arizona-American.

10 Representatives of Staff and Arizona-American have had discussions  
11 concerning the matters in dispute with respect to the application and have reached  
12 a settlement. The purpose of this Settlement Agreement is to memorialize the  
13 agreement that has been made by and among Staff and Arizona-American, which  
14 resolves all areas of disagreement relating to the terms and conditions under which  
15 Citizens' Arizona water and wastewater assets and Citizens' Certificates may be  
16 transferred to Arizona-American.

17 1. AIAC Imputation; Amortization. As of December 31, 1999, Citizens'  
18 AIAC balance was \$80,818,669. Citizens' AIAC balance as of the date on which  
19 Citizens' water and wastewater assets and Certificates are transferred to Arizona-  
20 American and Arizona-American becomes responsible for the provision of water  
21 and wastewater services will be imputed to Arizona-American. Such imputation  
22 shall be solely for ratemaking purposes. The total amount of AIAC imputed will be  
23 adjusted as more particularly provided below. The adjusted amount of AIAC will be  
24 amortized below the line (i.e., no impact on expenses) over a period of 6.5 years,  
25 with the amortization period beginning on the day on which the transfer takes  
26 place.

1        2.    CIAC Imputation; Amortization. As of December 31, 1999, Citizens'  
2 CIAC balance was \$4,734,430. Citizens' CIAC balance as of the date on which  
3 Citizens' water and wastewater assets and Certificates are transferred to Arizona-  
4 American and Arizona-American become responsible for the provision of water and  
5 wastewater services will also be imputed to Arizona-American. Such imputation  
6 shall be solely for ratemaking purposes. The total amount of CIAC to be imputed  
7 to Arizona-American will also be adjusted as provided below. The adjusted CIAC  
8 balance imputed to Arizona-American will be amortized above the line (i.e., as a  
9 reduction to depreciation expense) over a period of 10 years, with the amortization  
10 period beginning on the day on which the transfer takes place.

11       3.    Adjustment to Recorded AIAC and CIAC Balances. The amounts of  
12 AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be  
13 based on the actual balances shown on Citizens' regulatory books as of the date of  
14 the transfer, adjusted as follows: An amount equal to five percent (5%) of  
15 Citizens' AIAC balance at the time of the transfer will be reclassified as CIAC and  
16 added to the CIAC balance, and the same amount will be deducted from Citizens'  
17 AIAC balance in computing the amounts to be imputed to Arizona-American for  
18 ratemaking purposes hereunder.

19       4.    Adoption of Remaining Staff Recommendations. Arizona-American  
20 agrees that the Commission may adopt the remaining Staff Recommendations, as  
21 set forth in the Direct Testimony of Linda A. Jaress.

22       5.    Deferral of Determination of Amortization Method. The parties agree  
23 that Arizona-American's request for an accounting order to establish the  
24 amortization method for any acquisition adjustment resulting from the transaction  
25 should be deferred until a future rate case.

26       6.    Transfer in the Public Interest. Based on the foregoing agreements



1 and understandings, Staff agrees that Arizona-American is a fit and proper entity to  
2 acquire the Certificates and that the Commission should authorize and approve the  
3 transfer of Citizens' Arizona water and wastewater assets to Arizona-American on  
4 the terms set forth herein. No additional terms, conditions or requirements are  
5 necessary or appropriate.

6 7. Support and Defend. This Settlement Agreement will be introduced as  
7 an exhibit during the hearing on the application, presently set for September 27,  
8 2000. Arizona-American and Staff will jointly request that the Settlement  
9 Agreement be received into evidence, and agree to support and defend this  
10 Settlement Agreement and the transfer of Citizens' water and wastewater assets  
11 and the Certificates to Arizona-American on the terms set forth herein as just,  
12 reasonable and appropriate based on the particular circumstances presented in this  
13 application.

14 8. Compromise; No Precedent. This Settlement Agreement represents a  
15 compromise in the positions of the parties hereto. By entering into this Settlement  
16 Agreement, neither Staff nor Arizona-American acknowledges the validity or  
17 invalidity of any particular method, theory or principle of regulation, or agrees that  
18 any method, theory or principle of regulation employed in reaching a settlement is  
19 appropriate for resolving any issue in any other proceeding, including (without  
20 limitation) any issues that are deferred to a subsequent rate proceeding. Except as  
21 specifically agreed upon in this Settlement Agreement, nothing contained herein  
22 will constitute a settled regulatory practice or other precedent.

23 9. Privileged and Confidential Negotiations. All negotiations and other  
24 communications relating to this Settlement Agreement are privileged and  
25 confidential, and no party is bound by any position asserted during the  
26 negotiations, except to the extent expressly stated in this Settlement Agreement.

1 As such, evidence of statements that were made or other conduct occurring during  
2 the course of the negotiation of this Settlement Agreement is not admissible in any  
3 proceeding before the Commission or a court.

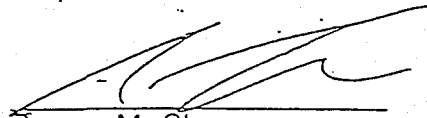
4 10. Complete Agreement. This Settlement Agreement represents the  
5 complete agreement of the parties with respect to its subject matter. There are no  
6 understandings or commitments other than those expressly set forth herein.

7 DATED this 26 day of September, 2000.

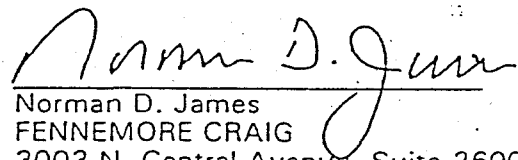
8 ARIZONA CORPORATION  
9 COMMISSION STAFF

ARIZONA-AMERICAN WATER COMPANY

10 By:

11   
12 Steven M. Olea  
13 Acting Director, Utilities Division  
14 Arizona Corporation Commission  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007

By:

  
Norman D. James  
FENNEMORE CRAIG  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913  
Attorneys for Arizona-American  
Water Company

15 An original and 10 copies of the  
16 foregoing was delivered this  
17 \_\_\_ day of September, 2000, to:

18 Docket Control  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, AZ 85007

22 A copy of the foregoing  
23 was delivered this \_\_\_ day of  
24 September, 2000, to:

25 Karen E. Nally  
26 Assistant Chief Administrative  
Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

1 A copy of the foregoing  
2 was telecopied/delivered and mailed this \_\_\_\_\_  
3 day of September, 2000, to:

4 Daniel W. Pozefsky  
5 Staff Attorney  
6 Residential Utility Consumer Office  
7 2828 North Central Avenue  
8 Suite 1200  
9 Phoenix, AZ 85004  
10 (602) 285-0350  
11 Walter W. Meek, President  
12 Arizona Utility Investors Association  
13 P. O. Box 34805  
14 Phoenix, AZ 85067  
15 (602) 254-4300

16 Craig A. Marks  
17 Associate General Counsel  
18 Citizens Communications Company  
19 2901 N. Central, Suite 1660  
20 Phoenix, AZ 85012  
21 (602) 265-3415

22 By: \_\_\_\_\_  
23  
24  
25  
26





## Arizona-American Water Company

19820 North 7th Street, Suite 201 • Phoenix, Arizona 85024 • (623) 445-2400 • Fax (623) 445-2454

January 7, 2003

Daphne J. Green  
Mayor  
Town of Youngtown  
12030 Clubhouse Square  
Youngtown, Arizona 85363

**SUBJECT: IRRIGATION WATER TARIFF**

**Maricopa Lake**

Dear Mayor:

Earlier last month I had the pleasure of meeting with Town Manager, Mr. Mark Fooks, and Public Works Director, Jesse Mendez, to discuss Arizona-American Water Company's (AAWC's) service to the Town of Youngtown (the "Town"). One of the discussion points covered in our meeting concerned Maricopa Lake and the desire by the Town to reduce its cost of water service by, among other things, changing service to a lower cost irrigation water rate rather than the current convention of billing pursuant to the general rate tariff. While the water district serving the Town does in fact have in its existing rate structure an irrigation water tariff, that rate is currently not available to the Town's water accounts.

AAWC does not have the authority to change rates for services to its customers; that power rests with the Arizona Corporation Commission. As you know, in November 2002, AAWC submitted applications for general rate increases for many of its water and wastewater systems, including the district serving Youngtown. This general rate proceeding provides an appropriate regulatory forum for the Town to request a revision to the irrigation water rate to allow it to cover service to the Town. The Town may do so by moving to intervene in the rate proceeding for such purpose. AAWC would not oppose such a motion and believes that this course of action will best suit both the needs of the Town and the resources of the ACC. Assuming the Town can demonstrate that the requested rate change is in the public interest and that no other party to the proceeding opposes the Town's request, it will likely be granted.

Kuta to Green

Page 2

1/7/2003

I trust that you will contact me should you have concerns on this matter or any other issues related to your service from AAWC. I look forward to continuing to work closely with your staff to learn how we may better serve Youngtown.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Kuta". The signature is fluid and cursive, with a large initial "R" and "K".

Robert J. Kuta

Manager

Arizona-American Water Company

C: Mark Fooks, Town of Youngtown  
Ray Jones, AAWC  
David Stephenson, AWSC  
Brian Biesemeyer, AAWC



# Sun City Fire Department

August 17, 2003

Town of Youngtown  
12030 North Clubhouse Square  
Youngtown, Arizona 85363

Mayor Bryan Hackbarth,

This letter is to express concerns the Sun City Fire Department has with the current water system established inside the Town of Youngtown, Arizona.


There are several areas of the water system that have sub-standard size main and branch lines to support the required size and type of fire hydrants. These lines are to achieve required fire flows for residential and commercial structures. This requirement is in accordance with the Uniform Fire Code 1997 edition, which has been adopted by the Town of Youngtown as well the Sun City Fire District, in which the Town of Youngtown is a part of. Additional areas of concern are pocket areas of the Town of Youngtown in which there is a lack of fire hydrants as required per code. The standard required spacing for fire hydrants is 600 feet of travel distance.

The flow pressure of the water system is a concern. Appropriate flow pressure for fire departments use during emergency activities, pressure variants from static and residuals range wildly depending on the location and time of day the flow test are conducted.

I believe that long range planning and engineering with all parties involved is required. Planning with the water system operators, inclusive of the systems owners, Town Officials and the fire department is imperative. With proper planning we can provide adequate relief from it's current condition and provide a systematic upgrade to substandard areas of the system.

If you have need for additional information please feel free to contact me at your convenience at 6230974-2321 ext 13.

Sun City Fire Department

  
Steve D. Morrow Fire Marshal

1  
2  
3  
4 **PREFILED DIRECT TESTIMONY OF ANDREW J. BURNHAM**  
5 **ON BEHALF OF TOWN OF YOUNGTOWN**

6 **Docket No. WS-01303A-02-0867**  
7 **Docket No. WS-01303A-02-0868**  
8 **Docket No. WS-01303A-02-0869**  
9 **Docket No. WS-01303A-02-0870**  
10 **Docket No. WS-01303A-02-0908**

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22 **SEPTEMBER 5, 2003**  
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1       **I. INTRODUCTION**

2  
3       **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4       A. My name is Andrew J. Burnham and my business address is 2902 Isabella Blvd.,  
5       Suite 20, Jacksonville Beach, Florida.

6  
7       **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8       A. I am employed by Burton & Associates, Inc., a utility finance and economics  
9       consulting firm, as a Utility Rate Consultant.

10  
11  
12       **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
13       **BUSINESS EXPERIENCE.**

14       A. I earned a Bachelor of Business Administration degree as well as an Associate of  
15       PC Specialist degree from Lake Superior State University. In addition, I have  
16       completed a number of special courses on ratemaking and utility economics  
17       sponsored by industry organizations. I have been a Utility Rate Consultant with  
18       Burton & Associates since July of this year. Prior to joining Burton & Associates,  
19       I was employed by Consumers Energy Company in Michigan as a General Rate  
20       Analyst. A copy of my resume detailing my education and work experience is  
21       attached to this testimony as AJB Exhibit 1.  
22  
23  
24  
25  
26



1       **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS RATE CASE?**

2       **A.    I am testifying on behalf of the Town of Youngtown (“Youngtown” or “Town”).**  
3       As explained by Michael E. Burton (“Mr. Burton”) in his Direct Testimony,  
4       Youngtown and its residents are customers of Arizona-American Water Company  
5       (“Arizona American” or “Company”) and thus have a direct and substantial  
6       interest in the outcome of the Company’s requested rate increase. As such, Mr.  
7       Burton and I thoroughly analyzed Arizona-American’s Rate Increase Application  
8       and associated schedules to determine whether the Company’s requested rate  
9       increase was in the public interest and fair and reasonable to Youngtown and its  
10      residents.  
11

12  
13  
14      **II.    SUMMARY OF RECOMMENDATIONS**

15      **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
16      **PROCEEDING?**

17  
18      **A.    I present the calculations of Burton & Associates’ recommendations as they apply**  
19      to certain components of the rate increase proposal put forth by Arizona-  
20      American for the Sun City Water and Wastewater Districts. In conjunction with  
21      certain calculations, I provide explanations as to the appropriateness of the  
22      adjustments. I am sponsoring these as exhibits in connection with my testimony,  
23      which have been made as modifications to the Arizona-American standard  
24      schedules A- F for the Sun City Water and Wastewater Districts as filed by the  
25      Company. I have not created a Schedule G or modified Arizona-American’s  
26

1 filed Schedule H because our proposed adjustments are directly related to the total  
2 amount of revenue necessary for the Sun City Water and Wastewater Districts,  
3 and are independent of the allocation of any final revenue adjustments ultimately  
4 authorized by the Commission in this rate case proceeding. The adjustments Mr.  
5 Burton and I recommend on behalf of Youngtown are as follows:  
6

- 7 1. The use of Original Cost Rate Base ("OCRB") alone as the basis  
8 for determining Fair Value Rate Base ("FVRB") and deferring the  
9 accounting treatment of the acquisition adjustment;
- 10 2. Extending the period used as the basis for annualizing certain  
11 operating expenses;
- 12 3. Extending the time period over which rate case costs are amortized;  
13 and  
14
- 15 4. Modifying the phase-in of any rate increase, depending upon the  
16 level of rate increase, which may be authorized by the Commission  
17 in this proceeding.

18 Mr. Burton provides a thorough discussion and explanation for adjustment 1  
19 above in his Direct Testimony. All of these specific adjustments are necessary to  
20 the filed rate increase proposal of Arizona-American in order to produce fair and  
21 reasonable rates that do not cause undue harm and burden to the ratepayers of the  
22 Company's Sun City Water and Wastewater Districts, including the Town of  
23 Youngtown.  
24  
25  
26



1       **Q.     PLEASE SUMMARIZE HOW THE ABOVE RECOMMENDED**  
2               **ADJUSTMENTS WOULD AFFECT ARIZONA-AMERICAN'S**  
3               **PROPOSED RATE INCREASE FOR THE SUN CITY WATER AND**  
4               **WASTEWATER DISTRICTS?**

5  
6       A.     As explained in detail below, our analysis and the resulting recommended  
7               adjustments show that a maximum potential rate increase of \$2,369,086 for the  
8               Company's Sun City Water District can be justified. This represents a 38.25%  
9               increase in Arizona-American's existing rates instead of the approximate 87%  
10              increase proposed by the Company. Using our recommended phase-in approach  
11              results in a 19.125% rate increase in the first year, and a subsequent 19.125%  
12              increase in the second year, following a Commission order in this proceeding.  
13              This compares to a 40% and 47% increase in the first and second years following  
14              the Commission's order as proposed by Arizona-American.

15  
16  
17              For the Arizona-American's Sun City Wastewater District, our recommended  
18              adjustments result in a (\$562,342) or an 11.05% decrease in the Company's  
19              existing rates instead of the approximate 15% increase proposed by Arizona-  
20              American. This full rate decrease would be effective immediately following the  
21              Commission's order approving the rate decrease.  
22  
23  
24  
25  
26

1     **III.    OCRB AS FVRB AND DEFERRAL OF ACCOUNTING**  
2                   **TREATMENT OF ACQUISITION ADJUSTMENT**  
3

4     **Q     HOW DID YOU CALCULATE FVRB FOR THE SUN CITY WATER AND**  
5           **WASTEWATER DISTRICTS?**

6     A.    As recommended by Mr. Burton in his Direct Testimony, OCRB should serve as  
7           FVRB instead of Reconstruction Cost New less Depreciation ("RCND") rate base  
8           as proposed by Arizona-American. Exhibit Schedule B-1 attached to this  
9           testimony shows this calculation. For this calculation, the modified OCRB  
10          calculation is simply carried over into the Fair Value Rate Base Column, which  
11          serves as rate base for ratemaking purposes. The result is a FVRB of \$22,220,302  
12          for the Company's Sun City Water District and a FVRB of \$8,777,097 for the  
13          Company's Sun City Wastewater District.  
14

15  
16  
17     **Q.    ARE ANY EXPENSE AMOUNTS ATTRIBUTABLE TO ARIZONA-**  
18           **AMERICAN'S SUN CITY WATER AND WASTEWATER DISTRICTS**  
19           **AFFECTED BY THE USE OF OCRB AS FVRB?**

20     A.    Yes. Exhibit Schedule C-2, pages X and Xa attached to this testimony, assume  
21           that OCRB is to be used as FVRB for all of Arizona-American's water and  
22           wastewater districts that are the subject of this rate case. The resulting FVRB  
23           values for each of Arizona-American's districts are different from those proposed  
24           by the Company as are the subsequent FVRB allocators, which are used for  
25           allocating certain Arizona-American expenses such as insurance and office  
26



1 expenses to each district. For the Company's Sun City Water District, the  
2 allocation of annual insurance expense is reduced from \$84,152 to \$62,200, while  
3 the allocation of annual office expenses is reduced from \$207,343 to \$153,255.  
4 For Arizona-American's Sun City Wastewater District, the Company's proposed  
5 allocation of annual insurance expense is reduced from \$34,960 to \$24,569, while  
6 Arizona-American's proposed allocation of annual office expenses is reduced  
7 from \$86,139 to \$60,536.  
8

9  
10 Another calculation affected is the synchronized interest expense. Since the  
11 modified FVRB is lower than that proposed by Arizona-American, the calculated  
12 interest expense is lower, and a larger adjustment to the test-year interest expense  
13 is needed for each of the Company's districts. Exhibit Schedule C-2 Page 8  
14 attached to this testimony shows the necessary adjustments. For Arizona-  
15 American's Sun City Water District, the Company's proposed synchronization  
16 interest expense was \$1,533,935, and the adjustment to the test-year interest  
17 expense was (\$1,883,331). However, with the lower FVRB, the synchronization  
18 interest expense is reduced to \$699,837, and the adjustment to the test-year  
19 interest expense is (\$2,717,429). For Arizona-American's Sun City Wastewater  
20 District, the Company's proposed synchronization interest expense was \$637,265,  
21 and the adjustment to the test-year interest expense was (\$418,941). With the  
22 lower FVRB, the synchronization interest expense is reduced to \$276,438, and the  
23 adjustment to the test-year interest expense is (\$779,767).  
24  
25  
26

1           The final calculated expense affected is annual property tax and the corresponding  
2           adjustment to the test-year amount recorded. Arizona-American proposes to use  
3           the same method as the Arizona Department of Revenue ("ADOR"), which I  
4           understand determines annual property tax expense by using the average of three  
5           years of revenue as the utility's full cash value and applies an assessment ratio to  
6           calculate the assessed value to which the property tax is applied. Arizona-  
7           American proposes to use as part of its 3-year revenue average the annual  
8           proposed revenues for each of its districts, which are the sum of the amount of the  
9           rate increase and the adjusted test-year revenues. Making our recommended  
10          rate increase and the adjusted test-year revenues. Making our recommended  
11          adjustments, the amount of the Company's proposed rate increase is reduced. As  
12          such, the annual calculation of property tax and the associated adjustment to the  
13          test-year expense are affected. Arizona-American's proposed annual expense for  
14          its Sun City Water District was \$284,477 and the adjustment required to the test-  
15          year expense was (\$51,855). After the appropriate adjustments are made, the  
16          annual expense is reduced to \$248,483, which has a corresponding adjustment to  
17          the test-year expense of (\$87,849). Arizona-American's proposed annual expense  
18          for its Sun City Wastewater District is \$193,701 and the adjustment required to  
19          the test-year expense was \$43,837. After our proposed adjustments are made, the  
20          annual expense is reduced to \$178,483, which has a corresponding adjustment to  
21          the test-year expense of \$28,619. These calculations are shown on Schedule C-2,  
22          Page 7 attached to this testimony.  
23  
24  
25  
26

1       **Q.     WHAT MODIFICATIONS NEED TO BE MADE TO THE**  
2               **CALCULATION OF OCRB FOR THE SUN CITY WATER AND**  
3               **WASTEWATER DISTRICTS AS PROPOSED BY ARIZONA-**  
4               **AMERICAN?**

5  
6       A.     The Citizens' Acquisition Adjustment amounts on Exhibit Schedules B-1 and B-2  
7               (shown attached to this testimony) were reduced to zero to reflect our position  
8               that the determination of appropriate accounting treatment for an acquisition  
9               adjustment should be deferred. Explanation for removing the acquisition  
10              adjustment is provided in the Direct Testimony of Mr. Burton.

11  
12  
13       **Q.     WHAT EXPENSE AMOUNTS ARE DIRECTLY AFFECTED BY**  
14               **REMOVING THE ACQUISITION ADJUSTMENT RELATED TO**  
15               **CITIZENS' ASSETS?**

16       A.     Only the depreciation expense amount and the corresponding adjustment to the  
17               test-year are affected. This is because the depreciation expense amount was  
18               calculated by Arizona-American to include the amount of principal reduction of  
19               the acquisition adjustment during the second year of the amortization schedule as  
20               a depreciable expense. The expense associated with the amortization of the  
21               acquisition adjustment for the Sun City Water District as proposed by Arizona-  
22               American was \$20,500, which produced a total depreciation expense of  
23               \$1,025,028 and an adjustment to the test-year depreciation expense of (\$174,912).  
24               Deferring the acquisition adjustment reduces the total annual expense to  
25  
26



1           \$1,004,528, and the adjustment to the test-year expense of (\$195,412). According  
2           to Arizona-American, the expense associated with the amortization of the  
3           acquisition adjustment for the Sun City Wastewater District is \$11,100, which  
4           produced a total depreciation expense of \$514,852 and an adjustment to the test-  
5           year depreciation expense of (\$29,653). However, deferring the acquisition  
6           adjustment, as we recommend, reduces the total annual expense to \$503,752, and  
7           the adjustment to the test-year expense to (\$40,753). The modified expense  
8           values are shown on Exhibit Schedule C-2, Page 6 attached to this testimony.  
9

10  
11       **Q.    IF THE COMMISSION WAS TO DECIDE THE ISSUE OF**  
12       **ACCOUNTING TREATMENT AND ALLOCATION OF AN**  
13       **ACQUISITION ADJUSTMENT IN THIS PROCEEDING, DESPITE YOUR**  
14       **POSITION TO THE CONTRARY, DO YOU AGREE WITH THE**  
15       **PROPOSAL AS PUT FORTH BY ARIZONA-AMERICAN?**  
16

17       **A.**   We do not disagree with the proposed accounting treatment, however, we believe  
18           the allocation of the acquisition adjustment among the Company's water and  
19           wastewater districts should be based on net plant in service values as opposed to  
20           gross plant values at the time the sale of the assets to Arizona-American closed.  
21  
22  
23  
24  
25  
26

1       **Q.     WHY IS IT MORE APPROPRIATE TO MAKE AN ALLOCATION**  
2               **BASED UPON NET PLANT RATHER THAN GROSS PLANT?**

3       A.     Because gross plant, or un-depreciated original cost, does not completely reflect  
4               current value. Depreciation must be considered in the determination of current  
5               value. Therefore, at the time the sale of Citizens' assets to Arizona-American was  
6               closed, net plant values for each district, which consider depreciation, would  
7               provide a better basis for allocating any acquisition adjustment to each district.  
8

9  
10       **IV.    EXTENDING PERIODS OF CERTAIN EXPENSES FOR**  
11               **ANNUALIZING COSTS**  
12

13       **Q.     WHAT ANNUALIZED EXPENSES SHOULD HAVE EXTENDED**  
14               **PERIODS OF RECORDED COSTS USED IN CALCULATING ANNUAL**  
15               **EXPENSE AMOUNTS?**  
16

17       A.     The Arizona-American group insurance expense, as well as the management fee  
18               expense, should be based upon extended time periods for which cost data is  
19               available. The group insurance expense on Exhibit 3 attached to this testimony  
20               has appropriate cost data available extending back to the month of January.  
21               However, the annualized expense as proposed by Arizona-American was based  
22               on the time period of March to July only, despite the fact that the costs incurred in  
23               January and February are indeed comparable to the months of June and July and  
24               in fact are greater than the amount recorded in May. The Company's proposed  
25               annual expense for group insurance was \$622,145. When the annualized expense  
26

1 is calculated based on the monthly average cost spanning from January to July,  
2 the annual expense is reduced to \$552,847. The group insurance annual expense  
3 is part of the total salary and wage classification on Schedule C-2, Page Xa  
4 attached to this testimony. Thus, Arizona-American's proposed cost allocation of  
5 salary and wages to its Sun City Water and Wastewater Districts is reduced from  
6 \$432,625 and \$72,104 to \$413,726 and \$68,954 respectively. The annualized  
7 management fee expense as proposed by Arizona-American was based upon a  
8 monthly cost average from April to July. Cost data was recorded from January  
9 through July, and while January and February do appear to be incomplete, the  
10 cost information recorded for March is very comparable to the costs recorded for  
11 April through July and in fact is almost identical to the cost recorded in June. As  
12 such, the annualized expense should be based on the cost information recorded  
13 from March to July. As proposed by Arizona-American, the annualized expense  
14 was \$5,153,711, of which \$926,122 was allocated to the Sun City Water District  
15 and \$522,586 was allocated to the Sun City Wastewater District. When the  
16 annualized expense is based on the March to July time period, however, the  
17 annual expense is reduced to \$5,060,811, of which \$909,428 is allocated to the  
18 Sun City Water District and \$513,166 is allocated to the Sun City Wastewater  
19 District. These specific recalculated expenses for each district are shown on  
20 Exhibit 4 attached to this testimony. Exhibit Schedule C-2, Page 11 attached to  
21 this testimony shows a categorical summary of the total annual Arizona-American  
22 expense allocations to each district.  
23  
24  
25  
26



1       **V.     AMORTIZATION PERIOD FOR RATE CASE EXPENSES**

2  
3       **Q.     WHAT IS THE APPROPRIATE TIME PERIOD OVER WHICH RATE**  
4       **CASE EXPENSES SHOULD BE AMORTIZED?**

5       A.     The appropriate time period over which rate case costs should be amortized is a  
6             time period adequate to give the filing entity enough time to recover the total rate  
7             case expense prior to it filing a new rate proceeding. Based on recent history, for  
8             the Sun City Districts, this time period is approximately five (5) years. The most  
9             recent rate order pertaining to the Sun City Water and Wastewater Districts came  
10            on May 7, 1997, over five (5) years after the previous rate order issued on  
11            February 21, 1992. The current rate case proceeding was initially filed with the  
12            Commission on November 22, 2002, and will likely create a time span between  
13            Commission Decisions of greater than six (6) years. As Arizona-American  
14            proposes, the estimated rate case expenses would be amortized over a 3-year  
15            period and the amount of the amortized annual expense above the level in the test-  
16            year would be added as an adjustment to each district. As such, the Company's  
17            total rate case expense proposed for its Sun City Water District was \$40,874,  
18            which requires an adjustment to the test-year expense of \$29,000. The  
19            Company's total rate case expense proposed for its Sun City Wastewater District  
20            was \$33,583, which requires an adjustment to the test-year expense of \$21,019.  
21            Re-calculating the expense based on a five (5) year amortization period produces  
22            a total expense for the Sun City Water District of \$24,525, which requires an  
23            adjustment to the test-year expense of \$12,651. Making the same re-calculation  
24  
25  
26

1 for the Sun City Wastewater District produces a total expense of \$20,150, which  
2 requires an adjustment to the test-year expense of \$7,586. The recalculated  
3 expenses and test-year adjustments are identified on Exhibit Schedule C-2, Page 9  
4 attached to this testimony.  
5

6  
7 **VI. CONFORMING CHANGES TO EXPENSES**

8  
9 **Q. ARE THERE ANY EXPENSES THAT ARE AFFECTED BY YOUR**  
10 **PROPOSED ADJUSTMENTS?**

11 A. Yes. The calculation of income taxes is a direct result of Arizona-American's net  
12 profit or loss, which essentially equals revenues minus expenses. Because test-  
13 year revenues remain constant and many of our proposed adjustments affect  
14 expenses, the Sun City Water and Wastewater Districts' test-year profit or loss  
15 calculations are subsequently affected. Since our proposed adjustments serve to  
16 reduce adjusted test-year expense amounts, they increase the amount of profit or  
17 reduce the magnitude of loss for the test-year, which therefore increases the  
18 amount of the income tax expense. Once the entire rate related adjustments we  
19 recommend are implemented, the cumulative effects on this expense can be  
20 observed. As proposed by Arizona-American, the annual income tax expense for  
21 the adjusted test-year for the Sun City Water District was (\$665,050) and for the  
22 Sun City Wastewater District it was \$216,390. After our proposed adjustments  
23 have been made, the expense for the Sun City Water District is (\$271,892) and for  
24 the Sun City Wastewater District it is \$389,754. The recalculated expenses for  
25  
26

1 the adjusted test-year for each district are identified on Exhibit Schedule C-1  
2 attached to this testimony along with all other test-year adjusted expenses.  
3 Exhibit Schedule C-2, Page 1 attached to this testimony contains a summary of  
4 the recalculated adjustments made to certain test-year expenses for each of the  
5 Sun City Districts.  
6

7  
8 **VII. RATE INCREASE PHASE-IN PERIOD**

9  
10 **Q. WHAT DO YOU RECOMMEND TO MITIGATE POTENTIAL RATE**  
11 **SHOCK TO CUSTOMERS DEPENDING UPON THE ORDER OF**  
12 **MAGNITUDE OF THE FINAL RATE INCREASE AUTHORIZED BY**  
13 **THE COMMISSION?**

14 **A.** I recommend that if the final rate increase authorized for any of the Sun City  
15 Districts is greater than or equal to 20% and less than or equal to 40%, it be  
16 equally divided over a two-year period immediately following a Commission  
17 order. If the final authorized rate increase is greater than 40%, it should be  
18 equally divided over a three-year period. As proposed by Arizona-American,  
19 customers would see no more than a 40% increase in their rates in the first year  
20 following a Commission order in this proceeding, and the balance would be  
21 recovered in the subsequent year. As proposed by Arizona-American, customers  
22 in the Sun City Water District, would see a 40% hike in the first year following a  
23 Commission order and approximately a 47% increase in the second year. Under  
24 my recommended approach, should Arizona-American's rate relief request be  
25  
26



1           adopted, customers would see approximately a 29% increase in their rates each  
2           year for the next three (3) years. My recommended approach goes further to  
3           mitigate rate shock, which is especially critical for communities comprised of a  
4           significant number of citizens with low and/or fixed incomes.  
5

6  
7       **VIII. SUMMARY AND RESULTS**

8  
9       **Q.     WHAT IS THE MAXIMUM RATE INCREASE YOU BELIEVE MAY BE**  
10       **JUSTIFIED FOR ARIZONA-AMERICAN'S SUN CITY WATER AND**  
11       **WASTEWATER DISTRICTS BASED UPON YOUR ANALYSIS OF THE**  
12       **COMPANY'S RATE INCREASE APPLICATION?**

13       A.     Our analysis shows that an ultimate rate increase no higher than \$2,369,086 for  
14           Arizona-American's Sun City Water District is justified based on the evidence  
15           presented by the Company in its Rate Increase Application. This represents a  
16           38.25% increase above Arizona-American's existing rates instead of the  
17           approximate 87% increase proposed by the Company. This would result in a  
18           19.125% increase in the first year following the Commission order approving the  
19           rate increase and a subsequent 19.125% increase in the second year following the  
20           Commission's order. This compares to a 40% and 47% increase in the first and  
21           second years following the Commission's order as proposed by the Company.  
22

23  
24           For Arizona-American's Sun City Wastewater District, the justifiable annual rate  
25           increase would be (\$562,342) or an 11.05% decrease from the Company's  
26

1 existing rates instead of the approximate 15% increase proposed by Arizona-  
2 American. This full rate decrease would be effective immediately following the  
3 Commission's order approving such a decrease.  
4

5  
6 The final rate increase or decrease warranted for each of Arizona-American's Sun  
7 City Districts is shown on Exhibit Schedule A-1 attached to this testimony, which  
8 then flows into Exhibit Schedule A-2 for determining net income. The net  
9 income from Exhibit Schedule A-2 is then used on Exhibit Schedule A-5 attached  
10 to this testimony, which is the summary statement of cash flows.  
11

12  
13 Of course these figures assume the cost of capital and return values requested by  
14 Arizona-American are fair and reasonable, that all plant claimed to be in service  
15 by Arizona-American is servicing the public and that no other adjustments to  
16 expenses or plant is found to be necessary or appropriate by the Commission.  
17 Such issues were beyond the scope of Burton & Associates' initial investigation  
18 and the failure of Mr. Burton or myself to comment on any of them should not be  
19 taken as acceptance of Arizona-American's position.  
20

21  
22 **Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

23 **A. Yes.**  
24

# ANDREW BURNHAM

## RESUME



### SUMMARY

Mr. Burnham is a Utility Rate Consultant. He has experience on utility projects that include revenue sufficiency analyses and development of comprehensive financial plans, modeling of financial implications of energy policies, rate design, wholesale cost of service analyses, and contract administration. He has frequently prepared expert witness testimony and provided affidavits in state and federal proceedings.

Andy has been also responsible for a variety of issues and initiatives, including the coordination of federal regulatory filings for Consumers Energy Company, a public electric and gas utility that serves over 3 million customers. He has performed utility revenue and profit margins on a macro and micro level to determine the utility's financial exposure in competitive markets and has coordinated company initiatives in federal regulatory proceedings. He has analyzed the financial impacts upon utilities of the implementation of federal utility policy, and he has assisted with filings that comply with regulatory directives. He has diverse financial and analytical skills, including statistical modeling, revenue and load forecasting and budgeting, as well as the creation of innovative pricing structures.

Prior to joining Burton & Associates, Andy was a General Rate Analyst and Federal Regulatory Affairs Section representative for Consumers Energy. Consumers Energy is one of the largest combination utilities, providing electric and natural gas service to more than 6 million of Michigan's 9.5 million residents, in all 68 of the counties of Michigan's Lower Peninsula. While at Consumers, his responsibilities encompassed federal energy policy Federal Energy Regulatory Commission ("FERC") actions. Andy served as the key technical expert in evaluating proposed transmission rate filings and was responsible for identifying and quantifying their fundamental effects and financial impacts. Frequently he represented Consumers Energy as its rate expert in federal settlement negotiations, stakeholder processes, and trade associations.

---

### EXPERTISE

Functional areas of expertise and direct consulting experience include:

- Utility Financial Modeling & Analyses Including Cost of Service
- Revenue Sufficiency Analyses

- Continued -

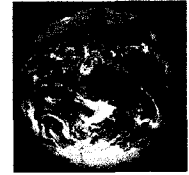
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**Burton & Associates**



# ANDREW BURNHAM

## RESUME



### EXPERTISE - CONTINUED

- Utility Rate Structure Design
- Budget Preparation & Financial Reporting
- Specific Service Charge Analyses
- Strategic Planning & Analyses
- Expert Witness Testimony
- Settlement Negotiations & Representation
- Billing Processes & Daily Operations Analyses
- Development & Evaluation of Innovative Rate Structures utilized in a RTO

### BUSINESS EXPERIENCE

*Rate Analyst & Consultant*  
**Burton & Associates**

**2003 – Present**

*General Rate Analyst*  
*Federal Regulatory Affairs*  
Consumers Energy Company

**2003**

*Rate Analyst*  
*Federal Regulatory Affairs*  
Consumers Energy Company

**2001-2003**

*Rate Analyst*  
*Rate Administration*  
Consumers Energy Company

**2001**

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**Burton & Associates**



## EDUCATION

Bachelor of Business Administration  
Lake Superior State University US-Michigan-Sault Ste. Marie  
Graduated Magna Cum Laude  
Recipient of Outstanding Business Student Award  
December 2000

Associate Of Personal Computer Specialist  
Lake Superior State University US-Michigan-Sault Ste. Mari  
December 2000

Youngtown - Sun City Water  
Index of Modified Standard Filing Schedules  
Reflecting Town of Youngtown's Proposed Adjustments

Schedule  
No.

- |     |  |
|-----|--|
| A-1 | Summary of the Increase in revenue requirement and the spread of the revenue increase by customer classification   |
| A-2 | Summary of the results of operations for the test year and for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-5 | Summary of changes in financial position for the test year and the two fiscal years ended prior to the test year, compared to the projected year                                 |
| B-1 | Schedule showing the elements of original cost and RCND rate bases.  |
| B-2 | Schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base  |
| C-1 | Test year income statement, with pro forma adjustments.  |
| C-2 | Schedule showing the detail of all pro forma adjustments.  |
| F-1 | Projected income statements for the projected year compared with the test year, at present and proposed rates.   |
| F-2 | Projected changes in financial position for the projected year compared with the test year, at present and proposed rates  |



**Youngtown - Sun City Water**  
Test Year Ended December 31, 2001  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule A-1  
Page  
Witness: Burnham

Line  
No.

1	Fair Value Rate Base	\$ 22,220,302
2		
3	Adjusted Operating Income	267,326
4		
5	Current Rate of Return	1.20%
6		
7	Required Operating Income	\$ 1,721,971
8		
9	Required Rate of Return on Fair Value Rate Base	7.75%
10		
11	Operating Income Deficiency	\$ 1,454,646
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 2,369,086
17		

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
19 Customer				
20 <u>Classification</u>				
21 5/8 X 3/4 Inch Meter			\$ -	38.25%
22 1 Inch Meter			-	38.25%
23 1.5 Inch Meter - Commercial			-	38.25%
24 2 Inch Meter			-	38.25%
25 Construction Water			-	38.25%
26 Church			-	38.25%
27 Golf Course			-	38.25%
28 Private Fire			-	38.25%
29 Public Authority			-	38.25%
30 Miscellaneous Revenues			-	38.25%
31			-	38.25%
32 Total of Water Revenues	\$0	\$0	\$ -	38.25%

36 SUPPORTING SCHEDULES:  
37 B-1  
38 C-1  
39 C-3  
40 H-1

**Youngtown - Sun City Water**  
Test Year Ended December 31, 2001  
Summary of Results of Operations

Exhibit  
Schedule A-2  
Page 1  
Witness: Burnham

Line No.	Description	Prior Years Ended			Test Year		Projected Year	
		12/31/1998	12/31/1999	12/31/2000	Actual 12/31/2001	Adjusted 12/31/2001	Present Rates 12/31/2002	Proposed Rates 12/31/2002
1	Gross Revenues	\$ 6,265,249	\$ 6,433,486	\$ 7,139,309	\$ 6,559,683	\$ 6,193,090	\$ 6,193,090	\$ 8,562,177
2								
3	Revenue Deductions and	5,434,325	6,184,488	6,510,567	6,258,602	5,925,765	5,925,765	6,840,208
4	Operating Expenses							
5								
6	Operating Income	\$ 830,924	\$ 248,998	\$ 628,742	\$ 301,081	\$ 267,326	\$ 267,326	\$ 1,721,971
7								
8	Other Income and	(30,460)	(121,446)	(185,926)	(37,045)	-	-	-
9	Deductions							
10								
11	Interest Expense	-	13	101	3,417,266	699,837	699,837	699,837
12								
13	Net Income	\$ 800,464	\$ 127,539	\$ 442,715	\$ (3,153,230)	\$ (432,512)	\$ (432,512)	\$ 1,022,134
14								
15	Earned Per Average							
16	Common Share	1.74	0.28	0.96	(6.85)	(0.94)	(0.94)	2.22
17								
18	Dividends Per							
19	Common Share	-	-	-	-	-	-	1.67
20								
21	Payout Ratio	-	-	-	-	-	-	0.75
22								
23	Return on Average							
24	Invested Capital	4.94%	0.39%	1.25%	-9.13%	-1.17%	-1.56%	3.68%
25								
26	Return on Year End							
27	Capital	2.47%	0.39%	1.17%	-9.13%	-1.17%	-1.45%	3.42%
28								
29	Return on Average							
30	Common Equity	4.17%	0.40%	1.39%	-10.35%	-1.36%	-3.69%	9.19%
31								
32	Return on Year End							
33	Common Equity	2.54%	0.40%	1.38%	-10.92%	-1.37%	-3.61%	8.54%
34								
35	Times Bond Interest Earned							
36	Before Income Taxes	-	11,289.85	7,479.17	0.12	(0.01)	(0.01)	3.38
37								
38	Times Total Interest and							
39	Preferred Dividends Earned							
40	After Income Taxes	-	9,811.69	4,364.32	0.08	0.38	0.38	2.46
41								
42								

SUPPORTING SCHEDULES

C-1  
E-2  
F-1

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Burnham

Line  
No.

	Prior Year Ended 12/31/1998	Prior Year Ended 12/31/1999	Prior Year Ended 12/31/2000	Test Year Ended 12/31/2001	Projected Year Present Rates 12/31/2002	Projected Year Proposed Rates 12/31/2002
1						
2						
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45						



Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Summary of Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Burnham

Lino No.		Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1				
2	Gross Utility Plant In Service	\$ 39,396,793	\$ 87,395,276	\$ 39,396,793
3	Less: Accumulated Depreciation	13,717,002	31,018,998	13,717,002
4				
5	Net Utility Plant In Service	\$ 25,679,791	\$ 56,376,278	\$ 25,679,791
6				
7	Less:			
8	Advances in Aid of			
9	Construction	2,331,186	5,171,351	2,331,186
10	Contributions In Aid of			
11	Construction - Net of amortization	1,127,078	2,500,237	1,127,078
12	Customer Meter Deposits	1,225	1,225	1,225
13	Deferred Income Taxes & Credits	-	-	-
14	Investment tax Credits	-	-	-
15	Plus:			
16	Unamortized Finance			
17	Charges	-	-	-
18	Deferred Tax Assets	-	-	-
19	Allowance for Working Capital	-	-	-
20	Citizens Acquisition Adjustment	-	-	-
21				
22	Total Rate Base	\$ 22,220,302	\$ 48,703,466	\$ 22,220,302

23  
24  
25  
26 SUPPORTING SCHEDULES:  
27 B-2  
28 B-3  
29 B-5  
30 E-1

RECAP SCHEDULES:  
A-1

**Youngtown - Sun City Water**  
Test Year Ended December 31, 2001  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 1  
Witness: Burnham

Line No.		Actual at End of Test Year	Proforma Label	Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant In Service	\$ 36,367,124	(1)	897,345	\$ 39,396,793
3			(2)	2,002,900	
4	Less:		(6)	-	
5			(8)	129,424	
6	Accumulated				
7	Depreciation	13,169,068	(3)	547,933	13,717,002
8					
9	Net Utility Plant				
10	In Service	\$ 23,198,056			\$ 25,679,791
11					
12	Less:				
13	Advances in Aid of				
14	Construction (Ratemaking Purposes Only)	2,441,606	(4a)	-	2,331,186
15			(5a)	(110,420)	
16	Contributions in Aid of				
17	Construction - Net (Ratemaking	1,017,908	(4b)	(1,250)	1,127,078
18	Purposes Only)		(5b)	110,420	
19	Customer Meter Deposits	1,225			1,225
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	Plus:				
23	Unamortized Finance				
24	Charges	-			-
25	Deferred Tax Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-	(7)	-	-
28					
29	Total	\$ 19,737,317			\$ 22,220,302

- 31
- 32 (1) Additional Plant at Closing
- 33 (2) Plant to be completed by 12/31/2002.
- 34 (3) Additional Accumulated Depreciation at Closing
- 35 (4) Increase (decrease) AIAC (4a) and CIAC (4b) to Amount at Closing
- 36 (5) Adjust AIAC (5a) and CIAC (5b) for Ratemaking Purposes
- 37 (6) Intentionally Left Blank
- 38 (7) Acquisition Adjustment Premium
- 39

40 SUPPORTING SCHEDULES:

41 B-2

42 E-1

RECAP SCHEDULES:  
B-1

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Income Statement

Exhibit  
Schedule C-1  
Page 1  
Witness: Burnham

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Metered Water Revenues	\$ 8,448,264	11/17	(366,593)	\$ 8,079,871	2,389,086	\$ 8,448,758
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	113,419			113,419		113,419
5		<u>\$ 8,559,083</u>		<u>\$ (366,593)</u>	<u>\$ 8,193,080</u>	<u>\$ 2,389,086</u>	<u>\$ 8,582,177</u>
6	Operating Expenses						
7	Salaries and Wages	\$ 833,989	2a,4a,10a	314,205	\$ 1,148,174		\$ 1,148,174
8	Purchased Water	515,909	18	(515,909)	-		-
9	Purchased Power	1,377,044	1b,16	39,366	1,416,410		1,416,410
10	Chemicals	17,413	1c	-	17,413		17,413
11	Repairs and Maintenance	540,312	1d	37	540,349		540,349
12	Office Supplies and Expense	188,519	1e,10b	258,534	429,053		429,053
13	Outside Services	104,564	1f	(70,923)	93,641		93,641
14	Service Company Charges	-	3	909,428	909,428		909,428
15	Water Testing	-	13	6,878	6,878		6,878
16	Rents	2,570	1g,12	25,799	28,369		28,369
17	Transportation Expenses	22			22		22
18	Insurance - General Liability	78,436	1h,10c	(12,540)	65,896		65,896
19	Insurance - health and Life	-			-		-
20	Regulatory Commission Expense - Rate Case	11,874	8	12,851	24,525		24,525
21	Miscellaneous Expenses	864,894	1i,10d	(584,572)	300,122		300,122
22	Depreciation Expense	1,199,940	5	(195,412)	1,004,528		1,004,528
23	Taxes Other Than Income	114,680	1a,2b,4b	(52,815)	62,065		62,065
24	Property Taxes	238,634	6	(87,849)	150,785		150,785
25	Income Tax	129,022			(271,892)		642,549
26					-		-
27	Total Operating Expenses	<u>\$ 8,258,602</u>		<u>\$ 88,077</u>	<u>\$ 5,925,765</u>	<u>\$ -</u>	<u>\$ 6,840,208</u>
28	Operating Income	<u>\$ 301,081</u>		<u>\$ (434,889)</u>	<u>\$ 267,328</u>	<u>\$ 2,389,086</u>	<u>\$ 1,721,971</u>
29	Other Income (Expense)						
30	Interest Income	-			-		-
31	Other Income	26,688	14a	(26,688)	-		-
32	Interest Expense	(3,417,266)	7	2,717,429	(699,837)		(699,837)
33	Other Expense	(63,731)	14b	63,731	-		-
34	Gain/Loss Sale of Fixed Assets	-			-		-
35	Total Other Income (Expense)	<u>\$ (3,454,309)</u>		<u>\$ 2,754,472</u>	<u>\$ (699,837)</u>	<u>\$ -</u>	<u>\$ (699,837)</u>
36	Net Profit (Loss)	<u>\$ (3,153,228)</u>		<u>\$ 2,319,802</u>	<u>\$ (432,512)</u>	<u>\$ 2,389,086</u>	<u>\$ 1,022,134</u>
37							
38	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
39	C-2					A-1	
40	E-2						



Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses

Exhibit  
Schedule C-2  
Page 1  
Witness: Burnham

Line No.		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Subtotal</u>
1	Revenues							
2								
3	Expenses	(741,541)	(948,649)	909,428	796,513	(195,412)	(87,849)	(267,510)
4								
5	Operating							
6	Income	741,541	948,649	(909,428)	(796,513)	195,412	87,849	267,510
7								
8	Interest							
9	Expense							
10	Other							
11	Income /							
12	Expense							
13								
14	Net Income	741,541	948,649	(909,428)	(796,513)	195,412	87,849	267,510
15								
16								
17								
18		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
19	Revenues					100,185		100,185
20								
21	Expenses		12,651	-	766,041		25,799	536,981
22								
23	Operating							
24	Income	-	(12,651)	-	(766,041)	100,185	(25,799)	(436,795)
25								
26	Interest							
27	Expense	2,717,429						2,717,429
28	Other							
29	Income /							
30	Expense							
31								
32	Net Income	2,717,429	(12,651)	-	(766,041)	100,185	(25,799)	2,280,633
33								
34								
35								
36		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
37	Revenues					(466,778)		(366,593)
38								
39	Expenses	6,878		-	40,127		(515,909)	68,077
40								
41	Operating							
42	Income	(6,878)	-	-	(40,127)	(466,778)	515,909	(434,669)
43								
44	Interest							
45	Expense							2,717,429
46	Other							
47	Income /		37,043					37,043
48	Expense							
49								
50	Net Income	(6,878)	37,043	-	(40,127)	(466,778)	515,909	2,319,802

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Schedule C-2  
Page 4  
Witness: Burnham

Line No.			
1	<u>Service Company Charges</u>		
2			
3	Total Service Charges	\$ 5,060,811	
4	Allocation Factor (4 Factor Formula)	0.1797	
5	Total Charges		<u>\$ 909,428</u>
6			
7			
8			
9			
10			
11			
12			
13	Adjustment to Revenues and/or Expenses		<u>\$ 909,428</u>

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Schedule C-2  
Page 6  
Witness: Burnham

Line No.	Account No.	Description	Original Cost	Rate	Depreciation Expense
1	<b>Depreciation Expense</b>				
2					
3					
4					
5		<b>Intangible</b>			
6	301.00	Organization	\$ 471	0.00%	\$ -
7	302.00	Franchises	2,851	0.00%	-
8	303.00	Miscellaneous Intangibles	4,591	0.00%	-
9		<b>Subtotal Intangible</b>	<u>\$ 7,913</u>		<u>\$ -</u>
10					
11		<b>Source of Supply</b>			
12	310.00	Land and Land Rights	\$ 180,083	0.00%	\$ -
13	311.00	Structures and Improvements	681,796	2.50%	16,545
14	312.00	Collecting and Impounding Res.	314	2.50%	8
15	313.00	Lakes, Rivers, Other Intakes	-	0.00%	-
16	314.00	Wells and Springs	2,387,315	2.52%	60,160
17		<b>Subtotal Source of Supply</b>	<u>\$ 3,229,508</u>		<u>\$ 76,713</u>
18					
19		<b>Pumping</b>			
20	320.00	Land and Land Rights	\$ 8,458	0.00%	\$ -
21	321.00	Structures and Improvements	582,491	1.87%	9,728
22	322.00	Other Power Production	9,554	4.42%	422
23	325.00	Electric Pumping Equipment	6,605,868	4.42%	291,879
24	328.00	Diesel Pumping Equipment	25,151	5.00%	1,258
25	328.10	Gas Engine Pumping Equipment	249,781	5.01%	12,514
26		<b>Subtotal Pumping</b>	<u>\$ 7,481,300</u>		<u>\$ 315,601</u>
27					
28		<b>Water Treatment</b>			
29	330.00	Land and Land Rights	\$ -	0.00%	\$ -
30	331.00	Structures and Improvements	80,580	1.87%	1,346
31	332.00	Water Treatment Equipment	407,427	4.00%	10,297
32		<b>Subtotal Water Treatment</b>	<u>\$ 488,007</u>		<u>\$ 11,643</u>
33					
34		<b>Transmission and Distribution</b>			
35	340.00	Land and Land Rights	\$ 10,493	0.00%	\$ -
36	341.00	Structures and Improvements	28,604	2.00%	572
37	342.00	Distribution, Reservoirs, & ST	1,374,148	1.87%	22,948
38	343.00	Transmission and Distribution	12,357,895	1.53%	189,076
39	344.00	Fire Mains	-	0.00%	-
40	345.00	Services	4,783,796	2.48%	118,038
41	348.00	Motors	3,232,044	2.51%	81,124
42	348.00	Hydrants	1,797,909	2.00%	35,958
43	349.00	Other Transmission & Distribution	523	2.00%	10
44		<b>Subtotal Transmission and Distribution</b>	<u>\$ 23,585,412</u>		<u>\$ 448,327</u>
45					
46		<b>General</b>			
47	389.00	Land and Land Rights	\$ 1,183	0.00%	\$ -
48	390.00	Structures and Improvements	798,274	1.87%	13,331
49	391.00	Office Furniture and Equipment	237,788	4.59%	10,914
50	391.10	Computer Equipment	340,444	4.59%	15,626
51	392.00	Transportation Equipment	428,409	25.00%	107,102
52	393.00	Stores Equipment	6,847	3.91%	268
53	394.00	Tools, Shop and Garage	97,973	4.02%	3,939
54	395.00	Laboratory Equipment	31,035	3.71%	1,151
55	396.00	Power Operated Equipment	28,679	5.20%	1,481
56	397.00	Communication Equipment	137,643	10.30%	14,177
57	398.00	Miscellaneous Equipment	68,047	4.93%	3,256
58		<b>Subtotal General</b>	<u>\$ 2,174,303</u>		<u>\$ 171,297</u>
59					
60					
61		Youngtown Plant	(146,497)	2.83%	(4,205)
62		ADFUC adjustment 3/95	(490,822)	2.83%	(12,788)
63		<b>TOTALS</b>	<u>\$ 30,367,124</u>		<u>\$ 1,012,869</u>
64					
65					
66					
67		Proforma Plant (to be completed by 12/31/2002)	\$ 3,029,668	2.8316%	85,794
68		Amortization of Deferred Regulatory Assets	\$ 655,877	2.8316%	18,573
69					
70					
71		Loss: Amortization of Contributions	\$ 1,127,078	10.0000%	(112,708)
72					
73		<b>Total Depreciation Expense</b>			<u>\$ 1,004,528</u>
74					
75		<b>Test Year Depreciation Expense</b>			<u>1,199,940</u>
76					
77		<b>Increase (decrease) in Depreciation Expense</b>			<u>(195,412)</u>
78					
79		<b>Adjustment to Revenues and/or Expenses</b>			<u>\$ (195,412)</u>



Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Revenues in year ended 12/31/01	\$ 6,559,683
4	Adjusted Revenues in year ended 12/31/01	6,193,090
5	Proposed Revenues	8,562,177
6	Average of three year's of revenue	<u>\$7,104,983</u>
7	Average of three year's of revenue, times 2	<u>\$14,209,967</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	247,444
12	Book Value of Transportation Equipment (proforma)	176,600
13	Total Book Value of Transportation Equipment	<u>\$ 424,044</u>
14		
15	Full Cash Value	\$ 13,785,923
16	Assessment Ratio	25%
17	Assessed Value	<u>3,446,481</u>
18	Property Tax Rate	7.205292%
19		
20	Property Tax	248,329
21	Tax on Parcels	154
22		
23	Total Property Tax at Proposed Rates	<u>\$ 248,483</u>
24	Property Taxes in the test year	336,332
25	Change in Property Taxes	<u>\$ (87,849)</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ (87,849)</u>

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Burnham

Line No.		
1	<u>Interest Synchronization with Rate Base</u>	
2		
3	Fair Value Rate Base	\$22,220,302
4	Weighted Cost of Debt from Schedule D-1	3.15%
5	Synchronized Interest Expense	699,837
6	Test Year Interest Expense, Per Books	3,417,266
7	Increase in Interest Expense	<u>\$ (2,717,429)</u>
8		
9	Adjustment to Revenues and/or Expense	<u>2,717,429</u>

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
ADJUSTMENTS TO REVENUES AND/OR EXPENSES  
Adjustment Number 8

Exhibit  
Schedule C-2  
Page 9  
Witness: Burnham

Line

No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 122,623
4		
5	Estimated Amortization Period in Years	5
6		
7	Annual Rate Case Expense	\$ 24,525
8		
9	Test Year Rate Case Expense	\$ 11,874
10		
11	Increase(decrease) Rate Case Expense	\$ 12,651
12		
13	Adjustment to Revenue and/or Expense	\$ 24,525



Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
ADJUSTMENTS TO REVENUES AND/OR EXPENSES  
Adjustment Number 10

Exhibit  
Schedule C-2  
Page 11  
Witness: Burnham

Line No.			Adjustment Label
1	<u>Projected Additional Expenses</u>		
2			
3			
4	Salaries & Wages	\$ 413,726	10a
5	Office Expense	286,670	10b
6	Insurance	62,200	10c
7	Misc Expense	3,446	10d
8			
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$ 766,041</u>	

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses

Exhibit  
Schedule C-2  
Page 1  
Witness: Burnham

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1 Remove Citizens Corp. Allocations	2 Remove T.Y. Salaries & Wages	3 Service Company Charges	4 Projected Salaries & Wages	5 Depreciation Expense	6 Property Taxes	
1							
2							
3	Revenues						
4							
5	Expenses	(741,541)	(948,849)	909,428	796,513	(195,412)	(87,849)
6							(287,510)
7	Operating						
8	Income	741,541	948,849	(909,428)	(796,513)	195,412	87,849
9							287,510
10	Interest						
11	Expense						
12	Other						
13	Income /						
14	Expense						
15							
16	Net Income	741,541	948,849	(909,428)	(796,513)	195,412	87,849
17							287,510
18							
19							
20	Adjustments to Revenues and Expenses						Subtotal
21	7 Interest Exp. Synch. W/ Rate Base	8 Rate Case Expense	9 INTENTIONALLY LEFT BLANK	10 Projected Additional Expenses	11 Revenue Annualization	12 Corporate Office Lease	
22					100,185		100,185
23	Revenues						
24							
25	Expenses	12,051	-	788,041		25,799	530,981
26							
27	Operating						
28	Income	-	(12,051)	-	(788,041)	100,185	(25,799)
29							(430,795)
30	Interest						
31	Expense	2,717,429					2,717,429
32	Other						
33	Income /						
34	Expense						
35							
36	Net Income	2,717,429	(12,051)	-	(788,041)	100,185	(25,799)
37							2,280,633
38							
39							
40	Adjustments to Revenues and Expenses						Total
41	13 Local Water Testing Expense	14 Remove Other Revenues/Expenses	15 INTENTIONALLY LEFT BLANK	16 Power Costs Adjustment	17 Ground Water Savings Revenues	18 Purchased Water	
42					(488,778)		(388,593)
43	Revenues						
44							
45	Expenses	6,878	-	40,127	-	(515,909)	68,077
46							
47	Operating						
48	Income	(6,878)	-	(40,127)	(488,778)	515,909	(434,869)
49							
50	Interest						
51	Expense						
52	Other						2,717,429
53	Income /	37,043					37,043
54	Expense						
55							
56	Net Income	(6,878)	37,043	(40,127)	(488,778)	515,909	2,319,802

**Youngtown - Sun City Water**  
**Test Year Ended December 31, 2001**  
**Projected Income Statements - Present & Proposed Rates**

Exhibit  
Schedule F-1  
Page 1  
Witness: Burnham

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 6,446,264	\$ 6,079,671	\$ 8,448,758
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	113,419	113,419	113,419
5		<u>\$ 6,559,683</u>	<u>\$ 6,193,090</u>	<u>\$ 8,562,177</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 833,969	\$ 1,148,174	\$ 1,148,174
8	Purchased Water	515,909	-	-
9	Purchased Power	1,377,044	1,416,410	1,416,410
10	Chemicals	17,413	17,413	17,413
11	Repairs and Maintenance	540,312	540,349	540,349
12	Office Supplies and Expense	169,519	429,053	429,053
13	Outside Services	184,564	93,641	93,641
14	Service Company Charges	-	909,428	909,428
15	Water Testing	-	6,878	6,878
16	Rents	2,570	28,369	28,369
17	Transportation Expenses	22	22	22
18	Insurance - General Liability	78,436	65,896	65,896
19	Insurance - health and Life	-	-	-
20	Regulatory Commission Expense - Rate Case	11,874	24,525	24,525
21	Miscellaneous Expense	864,694	300,122	300,122
22	Depreciation Expense	1,199,940	1,004,528	1,004,528
23	Taxes Other Than Income	114,680	62,065	62,065
24	Property Taxes	238,634	150,785	150,785
25	Income Tax	129,022	(271,892)	642,549
26				
27	<b>Total Operating Expenses</b>	<u>\$ 6,258,602</u>	<u>\$ 5,925,765</u>	<u>\$ 6,840,206</u>
28	<b>Operating Income</b>	<u>\$ 301,081</u>	<u>\$ 267,326</u>	<u>\$ 1,721,971</u>
29	<b>Other Income (Expense)</b>			
30	Interest Income	-	-	-
31	Other income	26,688	-	-
32	Interest Expense	(3,417,266)	(699,837)	(699,837)
33	Other Expense	(63,731)	-	-
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	<b>Total Other Income (Expense)</b>	<u>\$ (3,454,309)</u>	<u>\$ (699,837)</u>	<u>\$ (699,837)</u>
36	<b>Net Profit (Loss)</b>	<u>\$ (3,153,228)</u>	<u>\$ (432,512)</u>	<u>\$ 1,022,134</u>
37				



**Youngtown - Sun City Water**  
Test Year Ended December 31, 2001  
Projected Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule F-2  
Page 1  
Witness: Burnham

Line No.		Test Year Ended 12/31/2001	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
5	Cash Flows from Operating Activities			
6	Net Income	\$ (3,153,230)	\$ (432,512)	\$ 1,022,134
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	1,199,940		-
10	Deferred Income Taxes	(244,429)		
11	Accumulated Deferred ITC	(31,748)		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	496,979		
14	Materials & Supplies	55,084		
15	Prepaid Expenses	(5,912)		
16	Misc Current Assets and Deferred Expense	(120,971)		
17	Accounts Payable and Accrued Liabilities	(23,046)		
18	Accrued Taxes	76,876		
19	Net Cash Flow provided by Operating Activities	\$ (1,750,457)	\$ (432,512)	\$ 1,022,134
20	Cash Flow From Investing Activities:			
21	Capital Expenditures	(1,555,385)	(5,346,205)	(5,346,205)
22	Plant Held for Future Use	-		
23	Non-Utility Property	33,810		
24	Net Cash Flows from Investing Activities	\$ (1,521,575)	\$ (5,346,205)	\$ (5,346,205)
25	Cash Flow From Financing Activities			
26	(Decrease) Increase in Net Amounts due to Parent and			
27	Affiliates	3,067,674		
28	Customer Deposits	(17,059)		
29	Changes in Advances for Construction	246,295		
30	Changes in Contributions for Construction	(24,878)		
31	Proceeds from Long-Term Debt Borrowing	-		
32	Repayments of Long-Term Debt	-	-	-
33	Dividends Paid	-	-	(766,600)
34	Deferred Financing Costs	-		
35	Net Cash Flows Provided by Financing Activities	\$ 3,272,032	\$ -	\$ (766,600)
36	Increase(decrease) in Cash and Cash Equivalents	\$ -	\$ (5,778,717)	\$ (5,090,672)
37	Cash and Cash Equivalents at Beginning of Year	2,050	2,050	2,050
38	Cash and Cash Equivalents at End of Year	\$ 2,050	\$ (5,776,667)	\$ (5,088,622)
41	SUPPORTING SCHEDULES:			
42	E-3			
43	F-3			

EXHIBIT 3  
Schedule C-2  
Witness: Burnham

Schedule C-2 Witness: Burdham						Forecast		Actual	
	YTD	Mar-July	YE Forecast	Monthly Avg	TYPE CODE	TYPE	CATEGORY	AMOUNT	JIT
Directors Fees	-	-	-	-	CC	VISC	OFFICE	6,000	6,000
Bank Svc Charges CA	-	-	-	-	CC	OFFICE	OFFICE	28,397	28,397
B7 Insects -CA	-	-	-	-	CC	OFFICE	OFFICE	1,050	1,050
Collection Agencies	-	-	-	-	CC	OFFICE	OFFICE	583	583
Bank Svc Chg AG	-	-	-	-	CC	OFFICE	OFFICE	775	775
Forms	-	-	-	-	CC	OFFICE	OFFICE	1,173	1,173
Required Meetings	-	-	-	-	CC	OFFICE	OFFICE	18,706	18,706
EJ Insects AG	-	-	-	-	CC	OFFICE	OFFICE	28,397	28,397
Brochures and Handouts	-	-	-	-	CC	OFFICE	OFFICE	28,397	28,397
Community Relations	-	-	-	-	CC	OFFICE	OFFICE	1,977	1,977
Postage CA	-	-	-	-	CC	OFFICE	OFFICE	1,441	1,441
Insective Plan	-	-	-	-	CC	OFFICE	OFFICE	27,356	27,356
Group Insurance	-	-	-	-	CC	OFFICE	OFFICE	18,645	18,645
PBOIP	-	-	-	-	EE	S&W	S&W	52,844	52,844
Wicks Comp	-	-	-	-	EE	S&W	S&W	370,172	370,172
Dues/Memberships Deduct	-	-	-	-	EE	S&W	S&W	14,570	14,570
Dues/Memberships NonDeduct	-	-	-	-	EE	S&W	S&W	3,107	3,107
Employee Exp	-	-	-	-	EE	S&W	S&W	2,251	2,251
Employee Exp Corp Registration	-	-	-	-	EE	S&W	S&W	1,708	1,708
Azel/Travel	-	-	-	-	EE	S&W	S&W	11,345	11,345
Other Welfare	-	-	-	-	EE	S&W	S&W	3,373	3,373
Employee Awards	-	-	-	-	EE	S&W	S&W	58,716	58,716
Employee Physicians	-	-	-	-	EE	S&W	S&W	1,951	1,951
Tuition	-	-	-	-	EE	S&W	S&W	21	21
Training	-	-	-	-	EE	S&W	S&W	154	154
401K	-	-	-	-	EE	S&W	S&W	1,302	1,302
ESCP	-	-	-	-	EE	S&W	S&W	21,596	21,596
Trustee Fees	-	-	-	-	EE	S&W	S&W	23,515	23,515
Credit Line Fees	-	-	-	-	EE	S&W	S&W	54,113	54,113
General Lib Insurance, Property	-	-	-	-	PPF	MISC	MISC	14,000	14,000
Security Svc CA	-	-	-	-	PPF	MISC	MISC	1,422	1,422
Insurance Other, Gen. Liability	-	-	-	-	RB	INS	INS	7,161	7,161
Co Dues/Memberships Deduct	-	-	-	-	RB	INS	INS	45,358	45,358
Co Dues/Memberships NonDeduct	-	-	-	-	RB	INS	INS	5,337	5,337
Co Dues/Memberships AZ/WVA Deduct	-	-	-	-	RB	INS	INS	531,961	531,961
Charitable Contributors Deduct	-	-	-	-	RB	INS	INS	160,181	160,181
Property Taxes	-	-	-	-	RB	INS	INS	13,672	13,672
	-	-	-	-	RB	INS	INS	1,346	1,346
	-	-	-	-	RB	INS	INS	3,006	3,006
	-	-	-	-	RB	INS	INS	74	74
	-	-	-	-	RB	INS	INS	156	156
	-	-	-	-	RB	INS	INS	54	54
	-	-	-	-	RB	INS	INS	(108)	(108)
	-	-	-	-	RB	INS	INS	270	270
	-	-	-	-	RB	INS	INS	174,471	174,471
	-	-	-	-	RB	INS	INS	1,217,107	1,217,107
	-	-	-	-	RB	INS	INS	2,980,455	2,980,455
	-	-	-	-	RB	INS	INS	2,932,617	2,932,617

Yountown Revised Annualization of Arizona-American Management Fee

Management Fees  
per 168 Line 13

Arizona  
per 168 amount includes Amort One Time Costs  
Call Ctr  
SSC  
per 168 Line 13 less Amort One Time Costs

	Actual												Forecast	
	January	February	March	April	May	June	July	Ytd	July - AVG	YE Forecast	Annual Est	2002		
	22,441	215,344	398,049	429,178	471,821	386,921	451,837	2,384,191	429,281	4,530,597	5,151,374			
			(5,881)	(4,295)	(4,295)	(6,681)	(6,681)	(21,951)						
				(1,960)	(2,312)	(2,312)	(2,815)	(15,784)						
	22,441	215,344	390,768	422,923	465,214	387,425	442,341	2,346,458	421,734	4,455,127	5,060,811			

Customers	Current
AZ Total Water	74,325
AZ Total Sewer	40,198
Total Customers	114,523

Per JOE STAT Report

Customers	Total	Residential	Commercial	Industrial	Fire	OPA	Resale
Paradise Valley	4,669	4,350	239	-	55	8	19
WhiteStone Water	-	-	-	-	-	-	-
WhiteStone WasteWater	13,566	13,271	248	-	44	1	4
Agua Fria - Water	22,068	21,118	713	-	113	123	1
Sun City Water	21,144	20,806	448	-	-	-	-
Sun City WasteWater	15,303	14,925	337	-	41	-	-
Sun City West Water	14,889	14,697	192	-	-	-	-
Sun City West WasteWater	46	1	5	-	-	40	2
Treaton Water	7	1	4	-	-	-	-
Treaton WasteWater	3,307	3,208	83	-	16	-	-
Distco Water	3,593	3,557	38	-	-	-	-
Distco WasteWater	-	-	-	-	-	-	-
Tusayan	23	15	8	-	-	-	-
Surprise Water	-	-	-	-	-	-	-
Cave Creek	458	426	62	-	98	88	-
Tubac Water	13,623	12,741	690	-	-	-	-
McGuire Water	565	553	5	-	-	2	-
Sorensen WasteWater	1,232	1,184	48	-	-	-	-
Hayasu Water	-	-	-	-	-	-	-
Hayasu WasteWater	-	-	-	-	-	-	-
Check total	114,523						



Line No.	Description	Fair Value Rate Base	Fair Value Rate Base Factor	Employee Count	Employee Count Factor	Customer Count	Customer Count Factor	Profonna Plant	Profonna Plant Factor	Present Revenues	With PV Adjusted TY Revenues Factor	4F Factor	Without PV Adjusted TY Revenues Factor
1	Sun City Water	22,220,302	0.2404	24	0.2727	22,195	0.2042	5,346,205	0.1302	6,193,090	0.1508	0.2130	0.1737
2	Sun City Wastewater	8,777,097	0.0950	4	0.0465	21,144	0.1945	185,718	0.0048	5,688,340	0.1239	0.1667	0.1427
3	Sun City West Water	11,818,391	0.1279	6	0.0682	15,561	0.1434	576,012	0.0140	3,380,774	0.0823	0.1256	0.0948
4	Sun City West Wastewater	8,949,291	0.0957	9	0.1023	14,889	0.1370	238,759	0.0058	3,535,680	0.0881	0.1288	0.0892
5	Agua Fria	16,550,036	0.1791	7	0.0795	13,004	0.1196	10,303,148	0.2509	6,186,037	0.1507	0.1203	0.1735
6	Anthem Water	9,168,370	0.0992	12	0.1354	3,269	0.0301	9,917,159	0.2415	4,010,805	0.0977	0.0509	0.1125
7	Agua Fria/Anthem WW	2,746,898	0.0297	6	0.0682	2,544	0.0234	9,714,220	0.2385	1,856,546	0.0455	0.0509	0.0524
8	Tubac Valley	1,138,953	0.0123	1	0.0114	494	0.0045	487,313	0.0114	254,486	0.0062	0.0092	0.0071
9	Nichave Sewer	8,743,338	0.0973	1	0.0114	579	0.0053	379,629	0.0092	300,894	0.0074	0.0116	0.0085
10	Nichave Water	9,594,736	0.1037	15	0.1706	13,796	0.1269	1,580,237	0.0385	4,394,132	0.1070	0.1042	0.1232
11	Havasai Water	869,240	0.0097	3	0.0341	1,189	0.0109	2,352,427	0.0573	440,924	0.0107	0.0139	0.0124
12	PV									5,405,505	0.1317		
13	Totals	92,430,597	1.0000	88	1.0000	108,684	1.0000	41,068,828	1.0000	41,060,315	1.0000	1.0000	1.0000

[illegible]

Youngtown - Sun City Wastewater  
Index of Standard Filing Schedules

Schedule  
No.

- |     |  |
|-----|--|
| A-1 | Summary of the increase in revenue requirement and the spread of the revenue increase by customer classification   |
| A-2 | Summary of the results of operations for the test year and for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-5 | Summary of changes in financial position for the test year and the two fiscal years ended prior to the test year, compared to the projected year                                 |
| B-1 | Schedule showing the elements of original cost and RCND rate bases.  |
| B-2 | Schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base  |
| C-1 | Test year income statement, with pro forma adjustments.  |
| C-2 | Schedule showing the detail of all pro forma adjustments.  |
| F-1 | Projected income statements for the projected year compared with the test year, at present and proposed rates.   |
| F-2 | Projected changes in financial position for the projected year compared with the test year, at present and proposed rates  |

**Youngtown - Sun City Wastewater**  
**Test Year Ended December 31, 2001**  
**Computation of Increase in Gross Revenue**  
**Requirements As Adjusted**

Exhibit  
Schedule A-1  
Page  
Witness: Burnham

Line  
No.

1	Fair Value Rate Base	\$ 8,777,097
2		
3	Adjusted Operating Income	1,025,469
4		
5	Current Rate of Return	11.68%
6		
7	Required Operating Income	\$ 680,185
8		
9	Required Rate of Return on Fair Value Rate Base	7.75%
10		
11	Operating Income Deficiency	\$ (345,284)
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	\$ (562,342)
17		

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
19	Customer			
20	<u>Classification</u>			
21	5/8 X 3/4 Inch Meter		\$ -	-11.05%
22	1 Inch Meter		-	-11.05%
23	1.5 Inch Meter - Commercial		-	-11.05%
24	2 Inch Meter		-	-11.05%
25	Construction Water		-	-11.05%
26	Church		-	-11.05%
27	Golf Course		-	-11.05%
28	Private Fire		-	-11.05%
29	Public Authority		-	-11.05%
30	Miscellaneous Revenues		-	-11.05%
31			-	-11.05%
32	Total of Water Revenues	\$0	\$0	\$ -11.05%

36 SUPPORTING SCHEDULES:  
37 B-1  
38 C-1  
39 C-3  
40 H-1



Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Summary of Results of Operations

Exhibit  
Schedule A-2  
Page 1  
Witness: Burnham

Line No.	Description	Prior Years Ended			Test Year		Projected Year	
		12/31/1998	12/31/1999	12/31/2000	Actual 12/31/2001	Adjusted 12/31/2001	Present Rates 12/31/2002	Proposed Rates 12/31/2002
1	Gross Revenues	\$ 4,927,913	\$ 4,958,136	\$ 5,001,158	\$ 5,055,107	\$ 5,088,340	\$ 5,088,340	\$ 4,525,998
2								
3	Revenue Deductions and	4,098,505	4,524,321	4,301,143	4,727,432	4,062,871	4,062,871	3,845,814
4	Operating Expenses							
5								
6	Operating Income	\$ 829,408	\$ 433,815	\$ 700,015	\$ 327,675	\$ 1,025,469	\$ 1,025,469	\$ 680,185
7								
8	Other Income and	3,559	20,816	(26,685)	59,772	-	-	-
9	Deductions							
10								
11	Interest Expense	-	-	75	1,185,235	405,468	405,468	405,468
12								
13	Net Income	\$ 832,967	\$ 454,631	\$ 673,255	\$ (797,788)	\$ 620,001	\$ 620,001	\$ 274,717
14								
15	Earned Per Average							
16	Common Share	1.81	0.99	1.46	(1.73)	1.35	1.35	0.60
17								
18	Dividends Per							
19	Common Share	-	-	-	-	-	1.01	0.45
20								
21	Payout Ratio	-	-	-	-	-	0.75	0.75
22								
23	Return on Average							
24	Invested Capital	16.00%	3.96%	3.23%	-2.85%	2.24%	3.48%	1.54%
25								
26	Return on Year End							
27	Capital	8.00%	3.62%	2.31%	-2.85%	2.26%	3.52%	1.56%
28								
29	Return on Average							
30	Common Equity	6.07%	2.19%	3.16%	-3.75%	2.82%	8.69%	3.85%
31								
32	Return on Year End							
33	Common Equity	4.06%	2.17%	3.11%	-3.82%	2.78%	8.79%	3.90%
34								
35	Times Bond Interest Earned							
36	Before Income Taxes	-	-	14,555.91	0.54	3.49	3.49	2.10
37								
38	Times Total Interest and							
39	Preferred Dividends Earned							
40	After Income Taxes	-	-	8,977.73	0.33	2.53	2.53	1.68
41								
42								
43	<u>SUPPORTING SCHEDULES</u>							
44	C-1							
45	E-2							
46	F-1							

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Burnham

Line  
No.

	Prior Year Ended 12/31/1998	Prior Year Ended 12/31/1999	Prior Year Ended 12/31/2000	Test Year Ended 12/31/2001	Projected Year Present Rates 12/31/2002	Projected Year Proposed Rates 12/31/2002
5 Cash Flows from Operating Activities						
6 Net Income	\$ -	\$ 454,031	\$ 673,255	\$ (787,788)	\$ 820,001	\$ 274,717
7 Adjustments to reconcile net income to net cash						
8 provided by operating activities:						
9 Depreciation and Amortization	-	415,643	538,018	544,505	503,752	503,752
10 Deferred Income Taxes	-	(358,984)	(193,031)	(166,145)		
11 Accumulated Deferred ITC	-	(8,598)	(7,024)	(8,548)		
12 Changes in Certain Assets and Liabilities:						
13 Accounts Receivable	-	(175,898)	658,981	(638,375)		
14 Materials & Supplies	-	-	-	-		
15 Prepaid Expenses	-	-	-	(23)		
16 Misc Current Assets and Deferred Expense	-	604,397	27,745	12,718		
17 Accounts Payable and Accrued Liabilities	-	539,154	395,947	672,931		
18 Accrued Income Taxes	-	(21,160)	2,916	(5,080)		
19 Net Cash Flow provided by Operating Activities	\$ -	\$ 1,449,205	\$ 2,096,165	\$ (388,785)	\$ 1,123,753	\$ 778,469
20 Cash Flow From Investing Activities:						
21 Capital Expenditures	-	(2,731,842)	(905,902)	(194,888)	(185,718)	(185,718)
22 Plant Held for Future Use	-	-	-	-		
23 Non-Utility Property	-	110,974	(37,214)	179,944		
24 Net Cash Flows from Investing Activities	\$ -	\$ (2,620,868)	\$ (843,116)	\$ (14,745)	\$ (185,718)	\$ (185,718)
25 Cash Flow From Financing Activities						
26 (Decrease) Increase in Net Amounts due to Parent and						
27 Affiliates	-	(386,303)	(1,660,477)	1,289,559		
28 Customer Deposits	-	175	(175)	-		
29 Changes in Advances for Construction	-	1,543,112	543,281	(888,028)		
30 Changes in Contributions for Construction	-	(5,321)	(35,078)	-		
31 Proceeds from Long-Term Debt Borrowing	-	-	-	-		
32 Repayments of Long-Term Debt	-	-	-	-		
33 Dividends Paid	-	-	-	-	(465,001)	(208,038)
34 Deferred Financing Costs	-	-	-	-		
35 Paid in Capital	-	-	-	-		
36 Net Cash Flows Provided by Financing Activities	\$ -	\$ 1,171,883	\$ (1,153,089)	\$ 401,530	\$ (465,001)	\$ (208,038)
37 Increase(decrease) in Cash and Cash Equivalents	-	-	-	-	483,034	375,713
38 Cash and Cash Equivalents at Beginning of Year	-	-	-	-	-	-
39 Cash and Cash Equivalents at End of Year	\$ -	\$ -	\$ -	\$ -	\$ 483,034	\$ 375,713

43 SUPPORTING SCHEDULES:

44 E-3  
45 F-2

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Summary of Fair Value Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Burnham

Line No.		Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1				
2	Gross Utility Plant in Service	\$ 19,962,780	\$ 51,811,232	\$ 19,962,780
3	Less: Accumulated Depreciation	7,189,539	20,408,401	7,189,539
4				
5	Net Utility Plant in Service	\$ 12,773,241	\$ 31,402,831	\$ 12,773,241
6				
7	Less:			
8	Advances in Aid of			
9	Construction	3,309,005	8,588,165	3,309,005
10	Contributions in Aid of			
11	Construction - Net of amortization	1,187,139	3,081,090	1,187,139
12	Customer Meter Deposits	-	-	-
13	Deferred Income Taxes & Credits	-	-	-
14	Investment tax Credits	-	-	-
15	Plus:			
16	Tolleson Trickling			
17	Filter	500,000	500,000	500,000
18	Deferred Tax Assets	-	-	-
19	Allowance for Working Capital	-	-	-
20	Citizens Acquisition Adjustment	-	-	-
21				
22	Total Rate Base	\$ 8,777,097	\$ 20,233,577	\$ 8,777,097

SUPPORTING SCHEDULES:

26  
27 B-2  
28 B-3  
29 B-5  
30 E-1

RECAP SCHEDULES:

A-1

**Youngtown - Sun City Wastewater**  
**Test Year Ended December 31, 2001**  
**Original Cost Rate Base Proforma Adjustments**

Exhibit  
Schedule B-2  
Page 1  
Witness: Burnham

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 19,643,850	(1)	1,330	\$ 19,962,780
3			(2)	216,300	
4			(6)	-	
5	Less:		(8)	101,300	
6	Accumulated				
7	Depreciation	6,967,677	(3)	221,862	7,189,539
8					
9	Net Utility Plant				
10	in Service	\$ 12,676,172			\$ 12,773,241
11					
12	Less:				
13	Advances in Aid of				
14	Construction (Ratemaking Purposes Only)	3,479,030	(4a)	-	3,309,005
15			(5a)	(170,025)	
16	Contributions in Aid of				
17	Construction - Net (Ratemaking	1,018,380	(4b)	(1,266)	1,187,139
18	Purposes Only)		(5b)	170,025	
19	Customer Meter Deposits	-			-
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	Plus:				
23	Tolleson Trickling				
24	Filter	-	(9)	500,000	500,000
25	Deferred Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-	(7)	-	-
28					
29	Total	\$ 8,178,762			\$ 8,777,097

- (1) Additional Plant at Closing  
(2) Plant to be completed by 12/31/2002.  
(3) Additional Accumulated Depreciation at Closing  
(4) Increase (decrease) AIAC (4a) and CIAC (4b) to Amount at Closing  
(5) Adjust AIAC (5a) and CIAC (5b) for Ratemaking Purposes  
(6) Intentionally Left Blank  
(7) Acquisition Adjustment Premium  
(8) Orcom Costs  
(9) Tolleson Trickling Filter

SUPPORTING SCHEDULES:  
B-2  
E-1

RECAP SCHEDULES:  
B-1



**Youngtown - Sun City Wastewater**  
Test Year Ended December 31, 2001  
Income Statement

Exhibit  
Schedule C-1  
Page 1  
Witness: Burnham

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Flat Rate Revenues	\$ 5,052,248	11	33,233	\$ 5,085,481	(562,342)	\$ 4,523,139
3	Measured Revenues	-			-		-
4	Other Wastewater Revenues	2,859			2,859		2,859
5		<u>\$ 5,055,107</u>		<u>\$ 33,233</u>	<u>\$ 5,088,340</u>	<u>\$ (562,342)</u>	<u>\$ 4,525,998</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ 332,898	2a,4a,10a	(175,194)	\$ 157,504		\$ 157,504
8	Purchased Wastewater Treatment	2,728,855	1c,16a,17,18	(1,736,408)	992,447		992,447
9	Purchased Power	1,621	1b,15	(111)	1,510		1,510
10	Fuel for Power Production	-			-		-
11	Chemicals	-			-		-
12	Materials and Supplies	108,581	1d	(2,865)	105,696		105,696
13	Repairs and Maintenance	-			-		-
14	Office Supplies and Expense	-	1e,10b	179,039	179,039		179,039
15	Outside Services	32,119	1f	(28,996)	3,123		3,123
16	Service Company Charges	-	3	513,166	513,166		513,166
17	Water Testing	-			-		-
18	Rents	68	1g,12	21,197	21,265		21,265
19	Transportation Expenses	-			-		-
20	Insurance - General Liability	50,858	1h,10c	(24,849)	26,009		26,009
21	Insurance - Health and Life	-			-		-
22	Regulatory Commission Expense - Rate Case	12,564	8	7,586	20,150		20,150
23	Miscellaneous Expense	492,448	1i,10d	(347,318)	145,130		145,130
24	Depreciation Expense	544,505	5	(40,753)	503,752		503,752
25	Taxes Other Than Income	24,872	1a,2b,4b	(17,118)	7,754		7,754
26	Property Taxes	149,864	6	28,619	178,483		178,483
27	Income Tax	248,379			389,754		172,697
28	Tollison Wastewater User Fees	-	16b	818,091	818,091		818,091
29	<b>Total Operating Expenses</b>	<u>\$ 4,727,432</u>		<u>\$ (805,936)</u>	<u>\$ 4,062,871</u>	<u>\$ -</u>	<u>\$ 3,845,814</u>
30	<b>Operating Income</b>	<u>\$ 327,675</u>		<u>\$ 839,189</u>	<u>\$ 1,025,469</u>	<u>\$ (562,342)</u>	<u>\$ 680,165</u>
31	<b>Other Income (Expense)</b>						
32	Interest Income	-			-		-
33	Other Income	69,616	13a	(69,616)	-		-
34	Interest Expense	(1,185,235)	7	779,767	(405,468)		(405,468)
35	Other Expense	(9,844)	13b	9,844	-		-
36	Gain/Loss Sale of Fixed Assets	-			-		-
37	<b>Total Other Income (Expense)</b>	<u>\$ (1,125,463)</u>		<u>\$ 719,995</u>	<u>\$ (405,468)</u>	<u>\$ -</u>	<u>\$ (405,468)</u>
38	<b>Net Profit (Loss)</b>	<u>\$ (797,788)</u>		<u>\$ 1,559,184</u>	<u>\$ 620,001</u>	<u>\$ (562,342)</u>	<u>\$ 274,717</u>

SUPPORTING SCHEDULES:

C-2

E-2

RECAP SCHEDULES:

A-1

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses

Exhibit  
Schedule C-2  
Page 1  
Witness: Burnham

Line No.		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Subtotal</u>
1	Revenues							
2								
3	Expenses	(937,588)	(357,570)	513,166	96,303	(40,753)	28,619	(697,823)
4								
5	Operating							
6	Income	937,588	357,570	(513,166)	(96,303)	40,753	(28,619)	697,823
7								
8	Interest							
9	Expense							
10	Other							
11	Income /							
12	Expense							
13								
14	Net Income	937,588	357,570	(513,166)	(96,303)	40,753	(28,619)	697,823
15								
16								
17								
18		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
19	Revenues					33,233		33,233
20								
21	Expenses		7,586	-	281,410		21,197	(387,630)
22								
23	Operating							
24	Income	-	(7,586)	-	(281,410)	33,233	(21,197)	420,863
25								
26	Interest							
27	Expense	779,767						779,767
28	Other							
29	Income /							
30	Expense							
31								
32	Net Income	779,767	(7,586)	-	(281,410)	33,233	(21,197)	1,200,630
33								
34								
35								
36		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
37	Revenues							33,233
38								
39	Expenses		-	11	263,056	(203,433)		(327,996)
40								
41	Operating							
42	Income	-	-	(11)	(263,056)	203,433	-	361,229
43								
44	Interest							
45	Expense							
46	Other							779,767
47	Income /	(59,772)						(59,772)
48	Expense							
49								
50	Net Income	(59,772)	-	(11)	(263,056)	203,433	-	1,081,224

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Schedule C-2  
Page 4  
Witness: Burnham

Line

No.

1	<u>Service Company Charges</u>		
2			
3	Total Service Charges	\$ 5,060,811	
4	Allocation Factor (4 Factor Formula)	0.1014	
5	Total Charges		<u>\$ 513,166</u>
6			
7			
8			
9			
10			
11			
12			
13	Adjustment to Revenues and/or Expenses		<u>\$ 513,166</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Schedule C-2  
Page 6  
Witness: Burnham

Line No.	Account No.	Description	Original Cost	Rate	Depreciation Expense
1	<u>Depreciation Expense</u>				
2					
3					
4					
5		<b>Intangible</b>			
6	301.00	Organization	\$ 122,373	0.00%	\$ -
7	302.00	Franchises	6,132	0.00%	-
8	303.00	Miscellaneous Intangibles	10,495	0.00%	-
9		<b>Subtotal Intangible</b>	<u>\$ 139,000</u>		<u>\$ -</u>
10					
11		<b>Treatment &amp; Discharge</b>			
12	310.00	Land and Land Rights	\$ 6,565	0.00%	\$ -
13	311.00	Structures and Improvements	22,095	2.50%	552
14	312.00	Preliminary Treatment	453	0.00%	-
15	313.00	Primary Treatment Equipment	-	0.00%	-
16	314.00	Secondary Treatment Equipment	2,575	2.52%	65
17	315.00	Tertiary Equipment	-	0.00%	-
18	316.00	Disinfection Equipment	-	0.00%	-
19	317.00	Effluent Lift Station E	1,503	2.00%	30
20	318.00	Outfall Line	291	2.00%	6
21	319.00	Sludge, Treatment & Distribution	-	2.50%	-
22	321.00	Influent Lift Station	178	2.00%	4
23	322.00	General Treatment Equipment	18,743	2.00%	375
24		<b>Subtotal Treatment &amp; Discharge</b>	<u>\$ 52,403</u>		<u>\$ 1,032</u>
25					
26		<b>Collection and Influent</b>			
27	340.00	Land and Land Rights	\$ -	0.00%	\$ -
28	341.00	Structures and Improvements	350,713	2.00%	7,014
29	342.00	Collection System Lift	1,229,723	8.40%	103,297
30	343.00	Collection Mains	9,886,964	2.04%	201,694
31	344.00	Force Mains	1,300,266	2.07%	26,916
32	345.00	Discharge Services	2,307,454	2.04%	47,072
33	348.00	Manholes	2,495,785	2.03%	50,664
34		<b>Subtotal Collection and Influent</b>	<u>\$ 17,570,906</u>		<u>\$ 438,657</u>
35					
36		<b>General</b>			
37	389.00	Land and Land Rights	\$ 1,108	0.00%	\$ -
38	390.00	Structures and Improvements	760,473	1.68%	12,782
39	391.00	Office Furniture and Equipment	228,528	4.55%	10,296
40	391.10	Computer Equipment	324,323	4.55%	14,741
41	392.00	Transportation Equipment	408,123	25.00%	102,031
42	393.00	Stores Equipment	6,523	3.92%	256
43	394.00	Tools, Shop and Garage	93,334	4.14%	3,860
44	395.00	Laboratory Equipment	29,565	3.71%	1,097
45	396.00	Power Operated Equipment	27,321	5.14%	1,405
46	397.00	Communication Equipment	131,126	10.28%	13,476
47	398.00	Miscellaneous Equipment	62,919	4.98%	3,133
48		<b>Subtotal General</b>	<u>\$ 2,071,343</u>		<u>\$ 163,077</u>
49					
50		Youngtown Plant "	(96,727)	2.80%	(2,709)
51		ADFUC adjustment 3/95 **	(93,075)	2.80%	(2,606)
52		<b>TOTALS</b>	<u>\$ 19,643,850</u>		<u>\$ 595,450</u>
53					
54					
55		Proforma Plant (to be completed by 12/31/2002)	\$ 316,930	2.80%	8,931
56		Tolleson Trickling Filter	\$ 500,000	2.80%	14,002
57					
58		Amortization of Deferred Regulatory Assets	\$ 145,771	2.80%	4,082
59					
60		Loss: Amortization of Contributions	\$ 1,187,139	10.00%	(118,714)
61					
62		<b>Total Depreciation Expense</b>			<u>\$ 503,752</u>
63					
64		<b>Test Year Depreciation Expense</b>			<u>544,505</u>
65					
66		<b>Increase (decrease) in Depreciation Expense</b>			<u>(40,753)</u>
67					
68		<b>Adjustment to Revenues and/or Expenses</b>			<u>\$ (40,753)</u>



Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Revenues in year ended 12/31/01	\$ 5,055,107
4	Adjusted Revenues in year ended 12/31/01	5,088,340
5	Proposed Revenues	4,525,998
6	Average of three year's of revenue	<u>\$4,889,815</u>
7	Average of three year's of revenue, times 2	<u>\$9,779,630</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	408,123
12	Book Value of Transportation Equipment (proforma)	-
13	Total Book Value of Transportation Equipment	<u>\$ 408,123</u>
14		
15	Full Cash Value	\$ 9,371,507
16	Assessment Ratio	25%
17	Assessed Value	<u>2,342,877</u>
18	Property Tax Rate	7.618094%
19		
20	Property Tax	178,483
21	Tax on Parcels	
22		
23	Total Property Tax at Proposed Rates	<u>\$ 178,483</u>
24	Property Taxes in the test year	149,864
25	Change in Property Taxes	<u>\$ 28,619</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ 28,619</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Burnham

Line No.		
1	<u>Interest Synchronization with Rate Base</u>	
2	Fair Value Rate Base	\$8,777,097
3	Weighted Cost of Debt from Schedule D-1	3.15%
4	Synchronized Interest Expense	276,438
5	Tolleson Bond Interest Differential	129,029
6	Total Proposed Interest Expense	405,468
7	Test Year Interest Expense, Per Books	1,185,235
8	Increase In Interest Expense	\$ (779,767)
9		
10	Adjustment to Revenues and/or Expense	779,767

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
ADJUSTMENTS TO REVENUES AND/OR EXPENSES  
Adjustment Number 8

Exhibit  
Schedule C-2  
Page 9  
Witness: Burnham

Line  
No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 100,749
4		
5	Estimated Amortization Period in Years	5
6		
7	Annual Rate Case Expense	\$ 20,150
8		
9	Test Year Rate Case Expense	\$ 12,564
10		
11	Increase(decrease) Rate Case Expense	\$ 7,586
12		
13	Adjustment to Revenue and/or Expense	\$ 7,586

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
ADJUSTMENTS TO REVENUES AND/OR EXPENSES  
Adjustment Number 10

Exhibit  
Schedule C-2  
Page 11  
Witness: Burnham

Line No.			Adjustment Label
1	<u>Projected Additional Expenses</u>		
2			
3			
4	Salaries & Wages	\$ 68,954	10a
5	Office Expense	186,638	10b
6	Insurance	24,569	10c
7	Misc Expense	1,249	10d
8			
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$ 281,410</u>	



Youngtown - Sun City Wastewater  
 Test Year Ended December 31, 2001  
 Adjustments to Revenues and Expenses

Exhibit  
 Schedule C-2  
 Page 1  
 Witness: Burnham

Line No.	<u>Adjustments to Revenues and Expenses</u>							Subtotal
	<u>1</u> Remove Citizens Corp. Allocations	<u>2</u> Remove T.Y. Salaries & Wages	<u>3</u> Service Company Charges	<u>4</u> Projected Salaries & Wages	<u>5</u> Depreciation Expense	<u>6</u> Property Taxes		
1								
2								
3								
4	Revenues							
5	Expenses	(937,588)	(357,570)	513,188	86,303	(40,753)	28,819	(697,823)
6								
7	Operating							
8	Income	937,588	357,570	(513,188)	(86,303)	40,753	(28,819)	697,823
9								
10	Interest							
11	Expense							
12	Other							
13	Income /							
14	Expense							
15								
16	Net Income	937,588	357,570	(513,188)	(86,303)	40,753	(28,819)	697,823
17								
18								
19								
20	<u>Adjustments to Revenues and Expenses</u>							Subtotal
21	<u>7</u> Interest Exp. Synch. W/ Rate Base	<u>8</u> Rate Case Expense	<u>9</u> INTENTIONALLY LEFT BLANK	<u>10</u> Projected Additional Expenses	<u>11</u> Revenue Annualization	<u>12</u> Corporate Office Lease		
22								
23	Revenues				33,233			33,233
24								
25	Expenses	7,586	-	281,410		21,197		(307,630)
26								
27	Operating							
28	Income	-	(7,586)	-	(281,410)	33,233	(21,197)	420,883
29								
30	Interest							
31	Expense	779,767						779,767
32	Other							
33	Income /							
34	Expense							
35								
36	Net Income	779,767	(7,586)	-	(281,410)	33,233	(21,197)	1,200,630
37								
38								
39								
40	<u>Adjustments to Revenues and Expenses</u>							Total
41	<u>13</u> Remove Other Revenues/Expenses	<u>14</u> INTENTIONALLY LEFT BLANK	<u>15</u> Power Costs Adjustment	<u>16</u> Tollison User Fees	<u>17</u> Tollison Replacement & Contingencies	<u>18</u> Projected Tollison O&M		
42								
43	Revenues							33,233
44								
45	Expenses	-	11	263,056	(203,433)	(477,840)		(805,936)
46								
47	Operating							
48	Income	-	-	(11)	(263,056)	203,433	477,840	839,169
49								
50	Interest							
51	Expense							779,767
52	Other							
53	Income /	(59,772)						(59,772)
54	Expense							
55								
56	Net Income	(59,772)	-	(11)	(263,056)	203,433	477,840	1,559,194

**Youngtown - Sun City Wastewater**  
Test Year Ended December 31, 2001  
Projected Income Statements - Present & Proposed Rates

Exhibit  
Schedule F-1  
Page 1  
Witness: Burnham

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
1	<b>Revenues</b>			
2	Flat Rate Revenues	\$ 5,052,248	\$ 5,085,481	\$ 4,523,139
3	Measured Revenues	-	-	-
4	Other Wastewater Revenues	2,859	2,859	2,859
5		<u>\$ 5,055,107</u>	<u>\$ 5,088,340</u>	<u>\$ 4,525,998</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 332,698	\$ 157,504	\$ 157,504
8	Purchased Wastewater Treatment	2,728,855	992,447	992,447
9	Purchased Power	1,621	1,510	1,510
10	Fuel for Power Production	-	-	-
11	Chemicals	-	-	-
12	Materials and Supplies	108,581	105,696	105,696
13	Repairs and Maintenance	-	-	-
14	Office Supplies and Expense	-	179,039	179,039
15	Outside Services	32,119	3,123	3,123
16	Service Company Charges	-	513,166	513,166
17	Water Testing	-	-	-
18	Rents	68	21,265	21,265
19	Transportation Expenses	-	-	-
20	Insurance - General Liability	50,858	26,009	26,009
21	Insurance - Health and Life	-	-	-
22	Regulatory Commission Expense - Rate Case	12,564	20,150	20,150
23	Miscellaneous Expense	492,448	145,130	145,130
24	Depreciation Expense	544,505	503,752	503,752
25	Taxes Other Than Income	24,872	7,754	7,754
26	Property Taxes	149,864	178,483	178,483
27	Income Tax	248,379	389,754	172,697
28	Tolleson Bond	-	818,091	818,091
29	<b>Total Operating Expenses</b>	<u>\$ 4,727,432</u>	<u>\$ 4,062,871</u>	<u>\$ 3,845,814</u>
30	<b>Operating Income</b>	<u>\$ 327,675</u>	<u>\$ 1,025,469</u>	<u>\$ 680,185</u>
31	<b>Other Income (Expense)</b>			
32	Interest Income	-	-	-
33	Other income	69,616	-	-
34	Interest Expense	(1,185,235)	(405,468)	(405,468)
35	Other Expense	(9,844)	-	-
36	Gain/Loss Sale of Fixed Assets	-	-	-
37	<b>Total Other Income (Expense)</b>	<u>\$ (1,125,463)</u>	<u>\$ (405,468)</u>	<u>\$ (405,468)</u>
38	<b>Net Profit (Loss)</b>	<u>\$ (797,788)</u>	<u>\$ 620,001</u>	<u>\$ 274,717</u>

**Youngtown - Sun City Wastewater**  
**Test Year Ended December 31, 2001**  
**Projected Statements of Changes in Financial Position**  
**Present and Proposed Rates**

Exhibit  
Schedule F-2  
Page 1  
Witness: Burnham

Line No.		Test Year Ended 12/31/2001	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	\$ (797,788)	\$ 620,001	\$ 274,717
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	544,505	503,752	503,752
10	Deferred Income Taxes	(166,145)		
11	Accumulated Deferred ITC	(9,546)		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	(638,375)		
14	Materials & Supplies	-		
15	Prepaid Expenses	(23)		
16	Misc Current Assets and Deferred Expense	12,716		
17	Accounts Payable and Accrued Liabilities	672,931		
18	Accrued Taxes	(5,060)		
19	Net Cash Flow provided by Operating Activities	\$ (386,785)	\$ 1,123,753	\$ 778,469
20	Cash Flow From Investing Activities:			
21	Capital Expenditures	(194,689)	(195,718)	(195,718)
22	Plant Held for Future Use	-		
23	Non-Utility Property	179,944		
24	Net Cash Flows from Investing Activities	\$ (14,745)	\$ (195,718)	\$ (195,718)
25	Cash Flow From Financing Activities			
26	(Decrease) Increase in Net Amounts due to Parent and			
27	Affiliates	1,289,559		
28	Customer Deposits	-		
29	Changes in Advances for Construction	(888,029)		
30	Changes in Contributions for Construction	-		
31	Proceeds from Long-Term Debt Borrowing	-		
32	Repayments of Long-Term Debt	-	-	-
33	Dividends Paid	-	(465,001)	(206,038)
34	Deferred Financing Costs	-		
35	Net Cash Flows Provided by Financing Activities	\$ 401,530	\$ (465,001)	\$ (206,038)
36	Increase(decrease) in Cash and Cash Equivalents	\$ -	\$ 463,034	\$ 376,713
37	Cash and Cash Equivalents at Beginning of Year	-	-	-
38	Cash and Cash Equivalents at End of Year	\$ -	\$ 463,034	\$ 376,713
39				
40				
41	SUPPORTING SCHEDULES:			
42	E-3			
43	F-3			